



LET'S DO BUSINESS WITH RUSSIA

Why We Should and How We Can

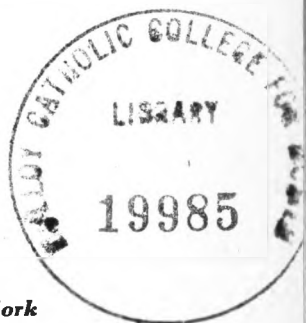
by

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HARPER & BROTHERS, New York



TO MY SONS DAVID AND WILLIAM
*Without whose encouragement
this work might not have been written*

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Preface

When the former Director of the World Peace Foundation in Boston, Dr. Leland M. Goodrich, asked the writer to present a list of studies for publication which would be valuable for a better understanding between the Union of Soviet Socialist Republics and the United States, the study which appeared most worth-while was the importance of trade between the United States and the Soviet Union and the need for knowledge among American businessmen of how to proceed to get this trade.

Russia, as the Soviet Union is more commonly called, needs American goods and know-how for her socialized program, and the United States needs particularly the minerals and other raw materials which Russia can supply. This interchange of commodities and services can reduce the seriousness of the forthcoming recession or depression so universally predicted by economists.

At present the United States is the only large free enterprise nation in the world, and if it wishes to remain so, it must adopt policies which will allow payment for sales abroad by purchasers rather than by its own government. Russia is the only large nation capable of fulfilling this requirement. Russia can and will pay.

Cold wars against Russia have existed in the past, mainly by restricting trade and during periods when the Soviet Union was much weaker than today. As Chapter V indicates, these cold wars have always proved fruitless, ineffective, and probably more costly to nations that started them than to the Soviet Union.

During the pending cold war, the United Kingdom has

seen fit to encourage trade with the Soviet Union, and in December 1947 entered into a series of trade and payments agreements.

The American businessman does not have to fear competition from the Soviet Union for many years to come; he must know that a credit to the Soviet Union is not a dole; and he must know that trade with the Soviet Union will not make Communists of American labor, but rather better Americans.

Finally, only a small proportion of American businessmen and engineers have had experience in trading with the Soviet Union. And they had to gain this experience through trial and error. For trading with the Russians means doing business through one large trading corporation, buying and selling for the population of all the member states of the Union of Soviet Socialist Republics; it means understanding the nature of the Russians and their ways of doing business.

For the above reasons, *Let's Do Business with Russia—Why we should and How we can* was written. Since this work was commenced its importance has been enhanced by the establishment of foreign trade monopolies not only among Russia's satellites in the Balkans, Central and Eastern Europe, but even among certain Western Powers, as England, France and others, at least in so far as their nationalized industries are concerned.

This book not only indicates the importance of the Russian market and presents to the businessman the essential data for carrying on trade with the Soviet Union, but it contains a more complete summary of the facts relating to Soviet world trade than has been previously presented.

Since the contents are concerned with normal peacetime trade, in many instances it has been necessary to use pre-World War II figures.

This book was undertaken after many years of research

on matters relating to the Soviet Union, after experience in the Division on Foreign and Export Matters of the Reconstruction Finance Corporation, followed by five years in the Bureau of Foreign and Domestic Commerce, by personal experience in exporting and importing, and by many conversations with officials of large firms who were successful in their trading with the Soviet Union.

Acknowledgment is made to the officials of IGE, IBM, SKF, Remington-Rand, and other companies, as well as to Mr. Robert H. Haynes and Mr. Foster M. Palmer of the Harvard Library for their kind cooperation.

Stella K. Margold

Boston, Massachusetts, June 1, 1948



1

The Importance of the Russian Market

There is no other market which offers greater prospects than Soviet Russia. H. A. Reincke, a British industrialist, says:

. . . as big as the market is today, it can be as nothing compared with what will follow the opening up of means of communication comparable with those of other European countries, the United States and elsewhere.

Primitive existence still prevails in much of Soviet Russia's area of over 8,500,000 square miles covering about one-sixth of the world's surface. Her approximately 200 million people are in need of many things from pots and pans to clothing, shoes, housing, household conveniences, and so on. And her population promises in the next two decades to experience a greater growth than that of any other European nation. Of the 96 million increase in population predicted for the European continent by 1970, to the Soviet Union will accrue fully 80 millions. In fact, the population of Europe, outside Russia, will reach its peak in 1960 and by 1970 will have started to decline.

The people of the Soviet Union have had to go without many essentials for some years in order to carry out the program decreed by the government for the speedy production of machinery, tractors, and other heavy equipment. After the added deprivations of World War II, the government

wishes to give its people some of the comforts enjoyed by Western civilization. To accomplish this, an unlimited home market is waiting to be supplied by foreign firms over and above what the Soviet Union can herself produce.

A Swedish economist has estimated that it will take ten years to satisfy the demand for sewing machines, and longer for automobiles, vacuum cleaners, radios, refrigerators, and other things that American people regard as necessities. Few of Russia's 200 million people have ever seen a washing machine; the only radio in many villages is in the community house; thousands of miles of road are unpaved. There are still many peasants plowing with horses and even oxen, though the Soviet agricultural system is harnessed to tractor output.

Construction in the Soviet Union is already proceeding on such a large scale that the possibilities of selling materials for ordinary housing, mass housing, prefabricated housing, and so on, are enormous. In many cities only one house or part of a house remained intact after the Germans left.

It is not only housing and consumers' goods that Russia needs, but development in all directions, mining, roads, railroads, public utilities, shipyards, factories. The major need, as expressed by Stalin during his conversation with Eric Johnston, is for mining machinery, with tools, factory and railroad equipment, hydroelectric plants, and road machinery high on the list.

In payment, Stalin believes that the United States can import many things from Russia—copper, manganese, tungsten, platinum, cobalt, nickel, timber, pulpwood, oil, vegetable drugs, flax, and other agricultural products not generally produced here. Some of them could be stockpiled.

The extent to which the Soviet Union needs our aid in rebuilding her war-torn industries is known to few. The vast areas of the Soviet Union that have been ravaged, the number of villages burned down, and the number of cities torn

apart, is beyond the imagination of people of the United States or even the sadly battered inhabitants of England. Tremendous factories and power projects on which millions of hours of labor had been spent have been reduced to nothingness. Mines have been flooded, shipyards demolished.

When the first German advance threatened, some factories in European Russia were moved bodily eastward to the Ural Mountains or beyond. It is now announced, as always seemed logical, that they will not be returned to the west, but will remain as part of the industrialization of Siberia.

The hundreds of factories that could not be moved—and unfortunately that is a large proportion—were engulfed by the German invasion. Almost without exception they were stripped and destroyed and new factories will have to be built.

At Dnieprostroi, the dam of the largest hydroelectric plant in Europe—half a mile long and as high as a 20-story building—was blasted by the Russians before the Germans arrived. And after partially rebuilding it, the Germans again blew it up before the advance of the Russians. Five of the plant's generators were built in the United States, the other four were patterned after them in the Soviet Union.

American machines were in the Stalingrad and Kharkov tractor works, also the largest in Europe. Around Stalino, capital of the Donbas in the Donetsk Basin, with an estimated 70 billion tons of coal deposits, 90 per cent of the mines used American machinery. One hundred fifty-four of the shafts were wrecked, with their equipment. Also destroyed were metallurgical works, rolling mills, blast furnaces, and nitrate, coking, and chemical works.

Although much of the Dnieprostroi plant has been restored since the end of hostilities, reconstruction in many areas has not proceeded as speedily as might have been possible with unqualified American cooperation.

At Makeievka and Yenakievo, the iron, steel and coking mills, employing 20,000 and 18,500 workers, respectively, have not been restored. Mariupol, largest port on the Azov Sea, had 47 industrial plants. Novorossisk on the Black Sea had a big cement plant and immense modern grain elevators and docks.

New machinery must replace what is gone. Factories which escaped the wholesale destruction have been working continuously. Their machines and tools are worn. Only essential replacements have been attempted. These plants need complete overhauling and re-equipment. There is vastly more that the Soviet Union must restore. In all this, the United States may have first call.

Lend-Lease has put more American equipment in the country. The Russian is not inclined to give up a satisfactory machine with which he is familiar.

The machinery and other equipment that Russia took from Germany as part of her reparations cannot possibly meet the requirements. Russia prefers to turn to the United States for a multitude of things: to give her people the higher standard of living she has been promising them for over thirty years; to help rebuild her war-torn economy. She turns to the United States because her people venerate the United States, not because of its system of government, about which they know little, but because it is the greatest industrial nation in the world, and can produce for the Soviet market and aid the Soviet Union to produce for its own market.

All this implies that Russia can be if not the biggest, at least the most eager customer. Moreover, for many years at least, it is unlikely that she will sell on the world markets in competition with Western powers. She will need to sell some things for exchange, of course.

"It will take years," said one Soviet official to Eric Johns-

ton, "before we can meet our home demands and raise our own standard of living. We will need all we produce."

The Soviet Union's demand for manufactured goods is so large that it will produce no appreciable surplus for export. It will import industrial products and export raw materials. In the early thirties, when the Soviet Union began to export machinery and other products in competition with ours, it supplied certain Middle and Far Eastern areas in which our exports were not appreciably represented.

To organize to supply the Russian market, the United States does not need, as some believe, a government-controlled trade monopoly. It does not need combinations of manufacturers as cartels. As this book shows, in some instances, where certain commodities are produced in small quantities by a number of manufacturers, combinations of firms may be necessary, but not cartels to hold up prices or divide the market proportionally. Most American exporters have never availed themselves of their privilege to combine to fix prices. And the Russians would prefer that they do not do so.

Russia has found that she can buy more cheaply and strike a far better bargain in countries where there is the greatest competition in business, where there is the least government control, than in countries following her own policy of government control. For example, when in 1935 Germany and Russia signed a trade agreement giving Russia credits greater than she ever had before from any nation, Russia made little use of these credits because the manufacturers formed cartels to hold up prices. Russia could then buy more cheaply in the United States and other free-enterprise countries—and did.

It is likely, too, that Russia will prefer to deal with American businessmen as individuals rather than as government

employees. She always has. Long before diplomatic relations were established between this country and the Soviet Union, Russia preferred American technical advisers and American machinery though frequently both cost more than similar services offered by other countries. Americans were not secret agents, and American machinery was good.

Under the American system, trade with Russia expanded in varying degrees. Before World War I United States exports were only 0.9 per cent of total exports. In 1941 (last year before the curtain of World War II was drawn) they totaled 2.1 per cent of United States total exports, or \$82 million, and 9 per cent of total imports, \$22 million. In 1946, the first peacetime year, United States exports to the Soviet Union totaled \$357,900,000, including \$5,800,000 of merchandise for re-export to other countries, \$152 million on Lend-Lease account and a similar amount on UNRRA account. The net purchases were only \$53,618,000. In 1947, however, though sales to Russia totaled \$149,504,067, only \$32,072,434 was on UNRRA account and \$16,367,371 on Lend-Lease, and the net Soviet purchases, incidentally all for cash, were \$101,064,262. United States purchases totaled \$77,110,760, mainly for furs and ores needed in the manufacture of steel.

American business will have to trade with the Soviet Union because markets for production and increasing investment outlets for capital are essential to maintain American economy at prosperity levels of employment, production, and income, and the Soviet Union is the only large market that can offer these opportunities and pay for what it buys.

American businessmen can keep their factory fires, as well as their home fires, burning by adopting a farsighted trade policy throughout the world. Dean Acheson, former under-secretary of state, has pointed out on various occasions:

We cannot expect domestic prosperity under our system without a constantly expanding trade with other nations and between other nations. . . . Our factories and farms—our national economy—has become, as never before, geared to an enormous world trade.

During 1948 American sales to Europe, in spite of the huge shipments under ERP, will not maintain American export totals attained since World War II. Exports to South American countries will also decline because they are running short of the dollars earned during the war.

Economists estimate that to maintain the level of production required for prosperity the United States must look for markets abroad in the neighborhood of \$10 billion a year. This, they believe, would mean nearly 3 million jobs in industry, and foreign markets for the agricultural output of about a million people more. When you compare these jobs with the number of the men and women who have returned to peacetime work, the importance of foreign trade begins to emerge. The significance of the large market offered by the Soviet Union cannot be overestimated.

Trading with the Soviet Union involves special knowledge and technique. The Soviet Union represents the largest commercial concern in the world. Other countries have big organizations, and world cartels have controlled certain commodities, but this Russian trade organization buys and sells both abroad and at home for the 200 million people of the Union of Soviet Socialist Republics.

Foreign trade in the U.S.S.R. is a state-controlled monopoly under the direction of the Ministry of Foreign Trade. Just as many of the Soviet Union's policies have undergone revision, so within the state monopoly there have been changes. But these changes were different from those in social life and certain aspects of political and economic life,

where modifications of an about-face nature have occurred.

In trade policies the Soviet Union has not changed the external framework—state monopoly—but merely the ways and means for carrying on within this framework. The modifications have more and more centralized and strengthened the power of government control.

Russia is not the only country in the world that acts as both purchaser and seller. To a lesser extent other countries have exercised such prerogatives both on the European continent and in Asia in peacetime. Yet we have successfully traded with those countries. Monopolies have existed in capitalist countries in particular industries. International commodity agreements have set quotas and prices.

Today nationalization of industry and government control of foreign trade is progressing in varying degrees throughout the world with the exception of the United States. In many countries, especially the Balkans—Yugoslavia, Bulgaria, Rumania—and in Czechoslovakia, Poland, Hungary, and even in Turkey, France and England, and most South American countries, foreign trade is controlled by government, semigovernment, or private agencies acting under government control. Poland has a list of government trading organizations similar to those in the Soviet Union. Co-operative organizations for foreign trade under government control exist in Czechoslovakia, Hungary, and Bulgaria. In Bulgaria, for example, Napred handles most of the foreign imports and exports, and Bulgarska Torgovia only imports large quantities of certain products.

American businessmen should not fear this condition. Those nationals who did not fear it before World War II were more successful in trading with Russia. Many times in American business history successful trade relations have been carried on with countries whose political systems were radically different. Upon Eric Johnston's return from Russia,

he reported that he discovered no reason why clashing ideologies should stand in the way of Russia's trading with the United States. And as a Boston *Herald* editorial said, before the present press campaign, "Communism or not, here is a customer that can make our capitalism purr again."

Such Founding Fathers as Hamilton, Madison, Jay, Adams, and Franklin foresaw the need for our co-operation with governments different from our own. They advised aloofness in politics but friendliness in commerce. They were emphatic in recommending trade with all nations no matter by what type of political organization they were controlled.

American businessmen do not like the iron curtain; they object to the difficulty of getting visas; they object to the lack of freedom of travel in the Soviet Union. But in the nineteenth century the same objections were raised against the tsarist government. Reluctance to trade with Russia dates back to the early days of the Republic. When Richard Dana was United States representative at the court of Catherine the Great, a trade agreement with Russia could have been signed for the sum of \$12,500, but the Congress refused. It was customary in those days to pay for such an agreement. Yet Catherine the Great aided the American Revolution by refusing George III's request for troops to be used against the colonies. In 1790 the Russians formulated the principle of armed neutrality to aid the United States. And during the Civil War, Russia sent part of her fleet to New York and San Francisco as a warning to England and France.

An atmosphere of violent political attacks, discriminatory regulations, and virtual embargoes is unfavorable to the development of trade relations, and is bound to make the course of Soviet-American trade more difficult if not impossible. Under normal conditions the trade is likely to grow by leaps and bounds.

But an interest must be shown to get this business, otherwise

Russia will manage to get what she needs elsewhere. That has been the practice in the past and it will be the practice in the future. Russia signed an agreement with Sweden for commodities American business can supply. Germany will go after the trade as soon as she is able, and in the meantime England is getting as much as she can.

American businessmen must work, study, learn, be energetic and enterprising. They must cease to be indifferent and ignorant where the possibilities of trade with Russia are concerned.

Thomas A. Morgan, chairman of the board of the Sperry Gyroscope Corporation, said:

From a purely business viewpoint Russia should be considered one of the most important customers and one with whom we should be on the most friendly terms. Yet we have compelled Russia to take her business somewhere else.

The Russians have an inherent friendship for Americans, extending back many years. The Russians, knowing what has been done in this country in the past century, and understanding that our problems at one time were substantially the same as those with which they are faced today, value the experience we have gained and the methods we have developed and consider the United States in a position to be of more help than any other country. They want to follow the American lead in everything that has to do with economy, with business, with technique, and so on.

A number of business men I have talked with that have traded with the Soviet Union's economic organization have reported, any agreement they make with you will be carried out absolutely to the iota.

Contracts have worked out satisfactorily; payments when due were honorably met.

The reasons for seeking Russian trade may be summarized as follows: (1) The Soviet government will be stable for a long time to come. (2) Its area represents a population of

200 million people who desire a better standard of living.

(3) The natural resources of the Soviet Union are greater than the combined resources of the balance of Europe. The Soviet government, therefore, has the means with which to pay. (4) We can be the leaders in establishing an ever-expanding trade, because the Russians desire to use us as a guide. (5) Their tariff walls are flexible and will not keep out desired trade. (6) Since 1923 Russia has bought and paid for foreign goods to the total of billions of dollars, characterized by honest dealings, prompt payments, and without default. (7) Under present conditions, according to various estimates, it will take the Soviet Union from twenty to fifty years to become our competitor in foreign markets. When Russia did begin to export machinery and other competing products in the early thirties, she did so to markets which least affected our own. (8) Trade with the Soviet Union can mean to us economic prosperity without major depressions.

The problem, then, is how to get Russian business. The Russian mind and customs must be understood in order to trade successfully with the Soviet Union—the Russian mind and customs as they have existed for many years. The nature and the methods of the Russian people have changed little.

Raymond Swing has stated that American political relations with the Soviet Union will require skill, patience, and resourcefulness. And it should be added that economic relations likewise require skill, patience, and resourcefulness.

Russians are lavish in their plans and expenditures; they like to do things in a big way. Their plans for a postwar highway program amaze American engineers. They include great transcontinental trunk roads, north-south arteries, and innumerable connecting links. One American contractor insists that the plan could keep all the roadbuilding equipment in the United States busy for ten years.

By nature the Russian believes he is surer to hit a bird if he aims at a star instead of at the branch of a tree. A Russian is never content with what he has done, but must feel that he should do better. An extravagant claim of what the government is going to do, or even is doing, may become an actuality sooner than expected. The Russians are energetic and persistent.

For this reason those contemplating Russian business must be able to supply large quantities. To make it possible for small producers to enter the market, it will be necessary, as will be pointed out later, for such manufacturers to pool their interests, as was done successfully in Germany and in England before World War II.

American businessmen must be ready to strike for Russian trade as soon as possible. Many of them say today, "We have no time to bother about Russian trade, we have an American market to satisfy." Business must keep in mind that Russia is going to place more and more stress and attention upon specific brands, upon packaging, upon styles and customs. If Americans get in their patterns at the beginning, they have a much better chance of remaining in the market for a long time. Those who get in at the beginning in the heavy-equipment line, too, have a better chance for technical-aid contracts. The orders for items like vacuum cleaners, refrigerators, clocks, and so on, which Russia plans to produce herself, may be comparatively small, but they may lead to technical-aid contracts, such as have already been profitable to some American corporations.

Articles have appeared in various journals about the importance of Russian trade and have told of some of the commodities that will enter this trade. But none have told how to go about getting Russian business, what policies Germany and England employed to corner as much of this trade as

possible after World War I, and what types of contracts the Soviet Union has made with foreign private firms, what means have been employed for arbitration, what credit terms have been acceptable, and so on.

It is the purpose of this book not only to aid the American producer or buyer to understand the Russian mind and methods of doing business, but also to inform him about the experiences of other firms and the specific steps to follow to get Russian trade. After outlining the qualifications of the American representative and some of the problems he must face, the following pages tell whom the representative should approach, whether for trade or registration of patents or trademarks; what he may expect in the contract and separate arbitration agreement; the concessions the Soviet Union has made in the past and will be likely to make in the future; as well as how the payments are made and what profits have been made.

This book relates the factors that interfere in trading with the Soviet Union, and how to surmount obstacles to trade, such as politics, credits, trade balances, and so on. The credits granted by several countries are referred to. As a means of balancing payments for large government credits, and in order that trade may continue unhampered by vast debts, a policy of increased imports and re-exports as practiced by England and Germany before World War II is recommended, as well as a system of stockpiling.

In giving these data, not only the experiences of American firms are mentioned, but also those of foreign firms. The most up-to-date information was obtained through personal contacts with businessmen and from the Department of Commerce in Washington, D.C. The Soviet Union, as well as England and Germany, gave forth little information after 1930. However, the pattern for many of the trade agreements

was then set. Therefore, the data should prove of value to American businessmen seeking Russian orders and to Americans desiring to purchase products of the Union of Soviet Socialist Republics.

Russian trade could have tided the United States over the last depression. Russian trade can tide over another depression provided wise and expeditious action is taken.



2

The Representative

It is of prime importance that the commercial representative of a foreign firm seeking business with the Soviet Union possess special qualifications and superior ability because of the magnitude of the individual transactions and the unusual methods of doing business. He must do business through export and import organizations, referred to as "combines," which act as *sole* buyer and seller for all the republics of the Soviet Union, either directly or through trade delegations or representations in foreign countries, like the Amtorg Trading Corporation in New York City. Transactions, therefore, are usually large and involve many problems.

To carry out such transactions the representative should be thoroughly acquainted with the policies and products of his company, and be empowered to make binding agreements with the export and import combines. He should have traits of character approaching those required by a diplomat. He should preferably possess at least a smattering of the Russian language.

The representative must be able to quote prices in terms of Russian weights and measures, the metric system.

It is best that he be an official of his company, because for many years the Russians have preferred to deal directly with company officials. Contracts involve many problems which

frequently only an official can solve. The transactions are usually large, and the Russians want to be sure they are striking a good bargain. With one acting in an official capacity they may more easily make and complete agreements.

To be sure, commission agents or salesmen were active in Russia as in most foreign countries before World War I, but they were never popular in obtaining government orders. Even then, the government, municipalities, zemstvos (county councils), and co-operative societies preferred to buy direct from the manufacturer. If a commission agent was successful in selling in those days, the invoices were made directly by the manufacturer, and usually the manufacturer maintained, in the office of the commission agent, his own representatives ready to supplement the efforts of the agents by their superior technical knowledge and ability to discuss contracts.

Nowadays, a representative sent to Moscow, or resident there, should know that it is a peculiarity of the Russian people to have one or more colleagues present during a conference. He must have tact and patience, for negotiations may extend over a long period of time. He must be sympathetic. And if he does not possess some smattering of the Russian language, it is preferable that he be accompanied to conferences by someone who does.

For example, Clark Minor, former president of International General Electric, went to Moscow on several occasions, accompanied by an assistant, a Russian, who understands the Russians and speaks their language fluently. He was successful in each instance. It is best to take along someone from the United States, for there is always the problem of getting an interpreter in Russia who will be unbiased and sufficiently intelligent.

If it is impossible for the representative to have some

knowledge of Russian or to bring an interpreter with him, he may conduct negotiations in some language other than Russian, since a number of Russian officials are conversant in other languages. In addition, there have been a number of instances when contracts were negotiated and concluded by the Amtorg Trading Corporation in New York and no knowledge of Russian was essential. Those contracts, concluded without contacting Moscow, were often for commodities which the Soviet government could not or did not wish to purchase elsewhere. Where competition is involved, or when it is necessary to convince the Soviet authorities that they should purchase a particular commodity, or if one wishes to hasten the conclusion of an agreement, contact with Moscow is necessary and some knowledge of the language is desirable. Of course this does not mean that the Russians will prefer to deal with someone simply because he speaks Russian or brings a suitable translator; the type and quality of the product and the price and terms also are taken into consideration.

The first International General Electric contract was signed in the United States in 1928, although some negotiations in Moscow preceded the conclusion of the agreement. The first purchase contract with Ford was signed here. The United Engineering and Foundry contracts of 1935, 1937, and subsequent ones were signed here. The 1935 and 1941 contracts were for continuous hot and cold strip mills, the 1937 one was for an aluminum rolling mill, which was the largest of its kind at the time, and the 1944 contract was for a rail and structural mill. As was the case with the General Electric contract, some of the negotiations were conducted in Moscow. Since World War II all contracts have been signed in New York. The extent to which contracts are signed here or in Moscow is dependent on the encourage-

ment the Soviet Union gives to representatives to come to Moscow and conclude agreements there.

It is important that the representative should be what the Russians and the French call "sympathetic." He must display a friendly and cordial attitude. Sympathy is the keynote of the Russian character. If the Russians feel that the representative is interested in helping them build up their own industries, develop their natural resources, and supply their surplus wants, they will readily respond to his overtures. On the other hand, if the representative looks too much upon Russia as a market to be captured and exploited entirely in his own interest and to his own advantage, suspicion will be followed by antagonism.

Henry Ford's first plan for the erection of a plant for tractors and automobiles was rejected. This is how Mr. Ford summarized the result:

It was all a misunderstanding on the part of the Russian government officials, who did not quite get the right idea from the men we sent over to negotiate. It was probably the fault of our representatives, because it seems the Russian government gained the impression that we wanted a slice of Russia or something like that. As a matter of fact, we wanted to help Russia.

The man of tact will be successful, the high-pressure salesman a failure. Temperamentally, the hustling American finds the easygoing, procrastinating Russian very irritating, while the latter is equally out of sympathy with the former's impatience. One must realize that the Russians have something of the Oriental in them in drawing out discussions and negotiations. Their methods are exceedingly slow. As an example, the president of a large firm came to Moscow to sign a contract after the details had been arranged there with another representative of the firm. He expected that a few days would be ample to allow for the concluding and signing of the agreement and he made arrangements accordingly.

It was three months, however, before the president of the firm left Moscow with the signed contract in his pocket.

Some manufacturers send their representatives to Russia for a week or two, or perhaps a month, and are disappointed because no orders are received. In the Union of Soviet Socialist Republics business is not done so quickly. The Russian is a careful buyer and his methods are not ours. He must be given time to make up his mind. When he has done so, he must then secure the requisite permissions to make the purchase. As all orders are examined by several departments, much time may be consumed before the permission is granted.

A representative of a large American firm recently stated that after he had given plans, specifications, and terms for some machinery, it was a year before the final order was placed. When the order did come through, however, it was a large one, and well worth waiting for.

The negotiations for the first International General Electric contract continued for one year. Those for the first Sperry Gyroscope Company contract lasted two years. A recent IGE contract still required one year of negotiations.

Not only must the representative plan to allow time to conclude an agreement, but, depending on the nature of his product, he should try to visit the establishments that are going to use his products. Orders originate in the factory or distribution headquarters even though the actual sale is consummated in Moscow. In advance of these visits it is desirable to transmit advertisements or catalogues and descriptive literature in Russian, giving prices and weights and measures in Russian terms. Various ministries, in addition to the import combines, have special information libraries for the distribution of catalogues, pamphlets, and other material received from abroad.

It has been pointed out that the representative should

preferably be an official of the American company. But the president or vice-president of every firm cannot afford to leave his business to go to Moscow. Some companies select a suitable representative and, in engaging him for the special task, give him an official title and power to conclude an agreement. This has been done successfully by a large locomotive company which obtained contracts from the Soviet Union.

One representative may be sent by several firms, which combine to form a common export company. When the prospects for the sale of certain commodities have been uncertain, or it was not possible to produce in large enough quantities for the Russian market, England and Germany formed special companies to represent combinations and associations of manufacturers in allied businesses. These companies were composed of executives of the industry, who chose one or more men to investigate the Russian market, and to negotiate with the combine.

This method has been employed advantageously in the sale of consumers' goods, as will be seen in Chapter IV, under the heading "Types of Agreements." Combinations of certain manufacturers are extremely important, because the absence of such arrangements has caused American business, better equipped than any other to supply the consumer trade, to lose out.

According to Louis Rubin, executive chairman of the Postwar Council for the popular-priced dress manufacturers, the dress industry in the United States desires to create an export market in order to double the present \$250 million annual output. The industry will succeed in filling its quota in Russia alone, if it uses the proper approach and is prepared to sell on consignment if necessary.

The executive of the newly formed sales company, or the

representative, should have qualifications similar to those required by the representative of a single firm. If he does not possess some knowledge of the language, or some knowledge of a language in which negotiations may be conducted, he should be accompanied by someone so equipped, rather than depend on an interpreter obtained abroad.

It is advisable for companies expecting repeated orders to have one or more permanent representatives in the Soviet Union. But since 1931 this could only be done with the permission of the Commissariat for Foreign Trade.¹

Trade treaties concluded by the Soviet Union with foreign governments do not in themselves give foreign firms the right to carry on continuous trading operations in the Union of Soviet Socialist Republics; that is, to open U.S.S.R. agencies or branch offices, or to maintain permanent representatives for concluding transactions. The law relative thereto is the decree of the Council of People's Commissars² of March 17, 1931. Article 1 of this decree states:

¹ This custom is not new in Russia. A restricted plan for representation of foreign firms existed in tsarist times. Before 1888 all foreign companies had to obtain a special license from the Tsar to carry on operations in Russia. The law of July 8, 1888, introduced certain exceptions; namely, foreign industrial companies, which sold only their own products made abroad, and foreign shipping companies, engaged in transport of goods and passengers between foreign and Russian ports, were released from obtaining a license from the sovereign provided their agents complied with all the general laws and regulations applicable to foreign merchants' agents and representatives, and also paid rates and taxes in accordance with the nature and size of their transactions.

In 1900 another law provided that those foreign companies which desire to carry on business in Russia must appoint special responsible representatives whose actions legally bind the company and with whom the government as well as private persons can communicate on all affairs in which the company is concerned.

² The title "commissar" has been changed to "minister" since the conclusion of World War II, and "commissariats" are now "ministries." The word "people's" is no longer used in the title. Throughout this book "commissar" and "commissariat" are used when referring to persons politically active, and to events concluded, before 1945.

Foreign trade, industrial and other economic organizations (stock companies, partnerships, etc.) and also individuals who own commercial, industrial and other economic enterprises are admitted for trading operations within the territory of the U.S.S.R., and for opening for this purpose of representations, offices, branches, etc., only with the special permission of the People's Commissariat for Foreign Trade of the U.S.S.R.

A firm desiring to maintain a branch office or a permanent representative applies to the Ministry for Foreign Trade for a permit. The application must state the kind of operations the firm intends to engage in and must be accompanied by a copy of the charter of the firm and a statement of its balance sheet for the preceding business year. If the Ministry for Foreign Trade admits a particular firm to carry on trading operations within the territory of the U.S.S.R., a certificate is given the firm outlining the scope of its operations, other conditions upon which it is admitted, and the term for which the permission is valid. This certificate or license and the name or names of the representatives must be registered in the office of the Department of State Income, Ministry for Finance of the U.S.S.R. The persons placed in charge of the branch offices are subject to review by the Ministry for Foreign Trade.

These representatives must have power to deal with all claims made against the firm relative to operations transacted on Soviet territory. No provision is made for an individual who may represent several firms. But an individual may represent a special company formed by a combination or association of firms, as previously referred to.

A prominent representative of the Soviet Union has stated that the law respecting branch offices and permanent representatives will be changed or repealed, and permanent agencies will be facilitated. It is expected that an announcement to this effect will be forthcoming within a year. This would

bear out the apparent desire of the Ministry for Foreign Trade to encourage the transfer of trade operations to Moscow and the impression received by Eric Johnston, former president of the United States Chamber of Commerce, when he visited the Soviet Union.

According to Article 12 of the decree of March 17, 1931, special permission is not required by firms whose representatives come to the U.S.S.R. only to carry on negotiations for or to conclude single transactions. However, before an entrance visa is issued, or an extension allowed, approval must be granted by the proper authorities in Moscow. Visas should therefore be applied for far in advance.

As soon as travel facilities are operating normally, visas may be applied for through Intourist. Until such time one may apply to the Embassy in Washington or to the Consulate General in New York. Intourist is the official Soviet travel agency, which will expect the representative to permit it to arrange a conducted tour. The more reasonable way to travel is to do so independently, but since the middle thirties the former arrangement has been the only one by which one could enter Russia unless one was traveling in an official capacity for some government, or as a news correspondent, or at the request of the Soviet Union. Today no commercial man may get a visa to enter Russia, much less to remain in Russia, unless the government import or export agency is interested in discussing business with him.

The Russo-British Chamber of Commerce in London, assisted its members by arranging a reduction of 10 per cent in the cost of Intourist services. This reduction applied to transportation within the Soviet Union, to hotel accommodations, meals at Intourist restaurants, interpreter service, car hire, and so on. The Chamber of Commerce also tried to arrange for the speedy granting of visas. Some foreign

trade organization in the United States could well do the same for American businessmen.

Before the representative starts out he should find out all the sources for orders for his product. Orders originate in the various republics that make up the Union of Soviet Socialist Republics, but purchases are made by the import organizations or combines in Moscow. If a representative can afford it, if he is confident the sale of his product warrants it, he should plan to visit as many as possible of the factories or distribution centers that utilize his product. And he should notify them of his arrival in advance.

The stay of a representative of a foreign firm under existing law in the U.S.S.R. is limited to one month. An extension may be granted if the Ministry for Foreign Trade and one of the Soviet trading corporations approves. One businessman, relating his experiences as a representative in the Soviet Union, remarked:

As long as they thought it was necessary to have me there, they would renew my visa at the instigation of the commercial agency which supported the original request. Sometimes there were delays in getting renewals and much red tape. I had to sweat to get my visa renewed. At times they transferred my visa into a residence permit valid for several months only.

While resident in Russia, representatives are subject to Russian laws and obliged to obey all general rules and regulations. They enjoy the general protection of the Russian laws and pay the same taxes and assessments as Soviet citizens. They are subject to a representatives' tax and to income taxes based on income earned while residing in the Soviet Union. Income derived from sources outside the limits of the U.S.S.R. is not subject to taxation.

The company or corporation represented is taxed $\frac{1}{4}$ of 1 per cent on income derived from all business activity in

the Soviet Union during the current year, plus a surplus profits tax. Exceptions are granted by special arrangement, either to avoid double taxation or in accordance with special concessions or technical-aid agreements. Trade agreements or treaties may provide for exemption from inheritance taxes, otherwise Soviet law is applied.

Business with Soviet Russia is difficult. It requires time, it is costly and vexatious. It does not belong to the easy and agreeable kinds of business. Initiation and execution of business transactions require special knowledge and patience. The psychological element plays a greater role in the trade with Soviet Russia than in the trade with any other country.

In these words the Central German Business Organization for Trade with the Soviet Union summarized the wide and varied experience of members during many years of trade relations with the U.S.S.R.

This summary of trading experience with the Soviet Union, the qualifications required of a representative to carry out the negotiations, the difficulties of entrance, of renewal of visa, and of establishing a permanent branch office, and the taxes imposed may discourage many firms. A prominent Britisher remarked on reviewing these difficulties, "The game is well worth the candle, and the expense incurred will prove a profitable investment."





3

Whom to Approach

Americans do business with the Soviet Union either through the Amtorg Trading Corporation, which is the official Soviet government trading representative in New York City, or by contacting the proper trading organizations or combines¹ in Moscow, or by a combination of efforts in both New York and Moscow. Before the war it was possible to by-pass Amtorg in New York and the combines in Moscow in dealing with the Maritime Province in the Far Eastern area of Siberia. There business was done with trading agencies on the premises. The main ones were Dalgotorg, Dalles, the Dalbank. These agencies had the right to make purchases and sales with fewer restrictions than were applied for sales and purchases through the combines in Moscow. But American firms do not appear to have availed themselves of this opportunity.

Those who have done substantial business with the Soviet Union, excluding the Maritime Province, claim that a combination of contacts both here and abroad works most satisfactorily, especially for the purpose of ironing out wrinkles in contracts, even if the contract is to be signed in New York. This opinion has been emphasized by Clark Minor and others.

¹ The Russians prefer to refer to the export and import organizations as "corporations." The State Department of our government prefers to call them "combines."

When contracts are completed in Moscow, confirmations of orders are transmitted to the New York office, in order that it may handle subsequent details and be fully informed.

Frequently initial contacts have been made by Amtorg, or a special commission was sent here for the purpose, in order to obtain all the details about the product. This information was transmitted to Moscow, and subsequently an official of the American firm went there to work out the contract. In many instances it has been possible to do business exclusively with Amtorg, as already indicated. But if a firm is large enough, if the prospects of doing business are sufficiently great and normal peacetime conditions exist, undoubtedly the best plan is to approach both Amtorg and Moscow.

Inquiries as to whether the U.S.S.R. is in the market for a particular item may be directed either to the proper department in Amtorg (210 Madison Avenue, New York City) or directly to the import organization in Moscow (see pages 31 to 37). If Amtorg does not have on hand any inquiries for the goods in question, and the matter is one of possible interest to the U.S.S.R., the proposal will probably be forwarded to Moscow. The import combine, in turn, may itself get in touch with the company, or may do so through its representative in Amtorg. If no demand exists, the combine in Moscow may direct the proposal to the attention of the various industrial organizations who might be interested in the product. To an increasing extent direct communications between the Moscow combines and American companies were preferred by the Russians and Americans and will be preferred in the future.

Until the spring of 1935, and since the latter part of 1936, the majority of purchases and sales were concluded by Amtorg and by special export-import combines which were

permitted to operate abroad independently of Amtorg. During that period, most of the contracts and financial arrangements were carried out abroad, only a few transactions being completed in the U.S.S.R.

In 1930 Stalin expressed himself in favor of encouraging representatives to come to Moscow for individual contracts, but this policy was not actively put in force until 1935. During that year the Council of People's Commissars ratified the decree of July 27, 1935, which reads as follows:

To allow the People's Commissariat for Foreign Trade to permit Export, Import, Export/Import, and Transport Organizations forming part of its system to conclude transactions on their own behalf, and in accordance with their statutes, with foreign firms on the territory of the U.S.S.R. as well as abroad.

The State Organizations are also empowered to issue and receive bills of exchange in connection with these transactions.

(Signed) V. Mezhlauk

I. Miroshnikov

At first only the larger export and import transactions were concluded in Moscow, and gradually others followed. As a result of this policy the number of representatives visiting the U.S.S.R. in 1935 increased considerably. According to official Russian statistics, during the first ten months of 1934 only 193 foreigners visited the country on business, and in the same period in 1935, 570 registered, and the number of transactions concluded in Moscow in 1935 was 541 as compared with only 7 in 1934. During the first four months of 1936, 469 foreign representatives called, and of these 338 completed transactions. During the war few businessmen were permitted to enter the Soviet Union. Only fur buyers and a few others for technical-aid contracts received visas.

The orders placed in Moscow in 1935 were 76.3 per cent

of the total orders transacted that year, while in 1934 only 8.1 per cent of the orders were placed direct. The Flax Export Organization, Exportlen, concluded all its export transactions in the U.S.S.R. The fur export combine concluded 64 per cent of its sales in 1935 in the Soviet Union, and in the first quarter of 1936, 85 per cent.

For Raznoexport, which sold animal products, hides and skins, textile and other waste products, licorice root, tobacco, matches, minerals, salt, silicates, and imported hides and skins, and leather, the figures were 35 per cent and 69 per cent, and for Lektekhsyrio, which sold medicinal herbs, 46 and 71 per cent, respectively.

During most of 1935 and 1936 foreign firms were in regular correspondence with Moscow and the financial arrangements were in most cases direct with the Soviet trading combines in Moscow. Amtorg did not cease to function. It continued to conduct negotiations, concluded some contracts, performed inspections, insurance and shipping transactions, and acted as a fact finding body for products and markets.

A. P. Rosengoltz, former commissar for Foreign Trade, stated in an article, "Foreign Trade under New Conditions," which appeared in the August, 1936, number of the *Monthly Review* of the U.S.S.R. Trade Delegation (London):

We must not be satisfied with the results obtained in the transfer of foreign trade operations into the U.S.S.R. What we have already achieved is only the first step; in the future we must endeavor to transfer all foreign trade operations into the U.S.S.R.

The advantages of the transfer of transactions to Moscow, as expressed by the Soviet Union, were that direct contact abroad offers exporters speedy, equitable, and final decision on all questions connected with the conclusion of deals, and to importers an opportunity to acquaint themselves on the spot with the technical level of the various branches of

Soviet industry and the wide assortment of goods offered. These are displayed in permanent exhibits by export combines and by the Museums of Soviet Exports organized by the All-Union Chamber of Commerce in Moscow.

As for their own advantages, the Soviets stated that the presence of a representative in Moscow facilitated negotiations with regard to technical and other matters and the possibility of arranging for arbitration in the Soviet Union.

The main question considered at the Conference of the Council of Foreign Trade Commissars in 1936 was the transfer of foreign trade operations into the U.S.S.R. A. V. Ozersky, then chairman of the U.S.S.R. Trade Delegation in Great Britain, at the annual general meeting of the Russo-British Chamber of Commerce, held on May 16, 1936, stated:

Direct contact with the trading organizations enables them more easily to come to agreement with regard to changes in the assortment of goods, modifications in the conditions of sale, period of delivery and so on. This is particularly noticeable as far as furs are concerned. Practically all organizations conducting foreign trade operations are fulfilling the instructions of the Commissariat to transfer foreign trade operations into the U.S.S.R.

In spite of all the advantages cited for direct sales and purchases in Moscow, since the end of 1936, when so many sabotage trials took place, the Soviet Union has considered it best again to transfer most of its sales and purchases to trade delegations or representations abroad.

The coming of World War II was more evident then. Two years previous, in 1934, one of the Russian government officials stated in *Izvestia* that Germany may be compared with a "steaming boiler on the verge of explosion." The international political situation therefore made it necessary for the

Soviet Union to defer its plan for concluding contracts in Moscow.

Between 1945 and 1947 a number of American businessmen tried to contact Moscow. In the opinion of a prominent American executive, they would have been successful if they were ready to make concessions and grant credits as formerly. American industry, however, had to impose more exacting conditions than usual in the face of the doubtful international situation. In the executive's own words, "We have had to protect our interests by means of stiffer terms, payments, conditions of sale, and so on."

There is little doubt but that the policy of encouraging American businessmen to visit Moscow will follow the settlement of postwar political problems. For this reason it is important to know what combines or agencies to call on in Moscow for purchase or sale of commodities. The departments in Amtorg are headed by representatives of these combines. Following is a list of the import combines and the commodities handled by them. Several of these also do exporting and in such cases an asterisk follows the name of the combine:

*Inreklama**—although it is a bureau of Mezhdunarodnaya Kniga, referred to below, it will probably play an increasingly important part in the future and is therefore listed separately. This bureau accepts advertisements from foreign companies for Soviet publications and from U.S.S.R. firms for placement in the United States press.

*Intorgkino**—exports and imports motion-picture films, photochemicals, and motion-picture equipment. This organization operates under the administration of the Motion Picture and Photo Industry of the U.S.S.R. It is not under the Ministry for Foreign Trade.

Machinoimport—All-Union Corporation or Combine which imports oil-well and oil-refining equipment, cutting machines,

combines, conveyors, drills, pneumatic hammers, and refining equipment; metallurgical equipment: rolling mills for cold and hot rolling, steam and mechanical hammers and presses, shears, bending and leveling machines, die-stamping machines, gold-riveting and thread-knurling machines; foundry equipment: forming and casting machines for pouring under pressure; electric furnaces of all kinds, pumps, compressors, ventilators, cranes of all kinds; railroad equipment: electric and steam locomotives and parts; thermotechnical equipment: steam boilers, turbines, locomobiles, piping and armatures, equipment for crushing and feeding coal, crushing machinery; electrotechnical equipment: motors and generators, transformers, oil switches, insulating and distributing apparatus, power and telephone and telegraph cables; hydraulic turbines; ships and shipping equipment: floating docks, movable floating cranes, excavators, sand suckers, and so on.

*Mezhdunarodnaya Kniga-Antikvariat**—imports and exports books, periodicals, office supplies, typewriters, accounting machines, handicraft articles, precious stones, and antiques. Among the handicraft articles that it exports are character dolls in national costumes, educational and mechanical toys, hand-carved woodenware; boxes, trays, jars, book ends; Karelian birch-root novelties as cigarette cases, boxes, and so on; Khokhloma lacquered woodenware as bowls, trays, vases, and containers; lacquered papier-mâché articles with miniature paintings on boxes, cigar and cigarette cases, powder boxes, and others, as well as other peasant art and handicraft forming a wide variety of useful and decorative gift novelties.

Promsyrieimport—All-Union Corporation, or Combine, for the import of industrial raw materials including nonferrous metals: copper, tin, nickel, lead, aluminum, aluminum oxide, zinc, antimony, and manufactures thereof; rubber: natural and synthetic, and manufactures thereof; textile raw materials: cotton, wool, jute, sisal, manila, rags, silk, and so forth, and manufactures thereof.

Raznoimport—All-Union Corporation, or Combine, for the importation of miscellaneous articles. It imports products previously handled by Centrosoyuz (the All-Union Co-operative for Consumers' Goods, now liquidated), such as manufactured consumers' goods for retail distribution, consisting of textiles, wear-

ing apparel, dry goods, knit goods, and so on, and foodstuffs such as tea, cocoa, beans, coffee, spices, fruits, rice, vanilla, citric acid, vegetable oils (coconut, palm, etc.) and many other food products. It also imports agricultural supplies formerly handled by the import department of Exportkhleb, such as rice, meat products, cattle—purebred, dairy, and slaughter; purebred and slaughter hogs; purebred horses, donkeys, mules, and so on; seeds and plants: vegetable and fruit of all varieties, floral-decorative and industrial cultures. From Textilimport, it took over the importation of chemicals and now imports paints, shellac, exotic resins, essential oils, medicaments, and pharmaceutical products.

Soyuzmetimport—All-Union Corporation, or Combine, for the import of steel products, tubes and ferroalloys. It imports various steel strips, hot rolled and cold rolled for drawing purposes, moldings, heat-treated strips, polished, for clock and other springs, for textile machinery, and stainless strips; steel wire of all kinds for rope, music wire, needle wire, spring wire, stainless wire, and alloy wire; all kinds of automobile sheets: hot rolled and cold rolled, high-carbon sheets, stainless sheets, alloy sheets; other sheets: hot rolled and cold drawn, bars and shapes of alloy and carbon steels, tool steels, drill rods; plates; shipbuilding, boiler, bridge, universal, and wire rods; beams, angles, channels, railroad materials; tin plate, plain and lacquered; steel pipes: hot rolled and cold drawn, carbon and alloy tubes; seamless and welded tubes, cracking tubes, bicycle tubes.

Soyuzfoto—All-Union Trust for importing and exporting photographs and photo illustrations. This is an independent trust. It is not under the supervision of the Ministry for Foreign Trade.

Stankoimport—All-Union Machine Tool Import Corporation, or Combine. It imports metal-cutting machines and tools, such as turret; revolving, ordinary, and automatic lathes and shapers; millers: broaching machines, gear cutters, and gear shapers; grinders: horizontal and engraving machines; drilling machines; and other special machines of all types; instruments and fixtures for machines and hand tools for metalworking.

Tekhnopromimport—All-Union Corporation, or Combine, for the import of technical equipment for the following industries:

construction, lumber, cellulose, paper, printing, chemical, wood-working, textile, agricultural, food, cement, clothing, shoe, canning, ceramic, silicate, glass, automotive supplies and equipment. In addition, it buys laboratory and medical equipment; precision, control, and measuring apparatus; optical and measuring instruments; and various industrial supplies: electrodes, abrasive manufactures, and insulating materials, industrial diamonds, special wire, bearings, cork, industrial paper, saws, needles, and so on.

The following is a list of the export combines and the commodities handled by them. Those which also do importing are indicated by an asterisk.

Exportkhhleb—originally the All-Union Co-operative for the export of grain products, now, under the same title, acts as a corporation, or combine, of the Soviet Union for the export of various food products in addition to grains. The grain products exported consist of wheat, rye, barley, oats, lentils, vetch, and oilcake. Other food products exported by this combine are: bacon, ham, game and poultry, butter, granulated and lump sugar, dried fruits, caviar (Beluga, Osetrina, and Sevruga—pressed and malosol), fresh-frozen fish (Beluga, Osetrina, and Sevruga); and sugar-beet seeds.

Exportlen—All-Union Corporation, or Combine, for the export of flax and hemp sells as follows: flax: Slanetz (dew-retted flax), and Mochenetz (water-retted flax), scutched (long and short), turbine, and peasant produced, hackled flax and hackled tow; linen: white, semiwhite, paddings, and other linens, manufactured in the form of tablecloths, napkins, runners, tray covers, tea sets, and so on; sheets, pillow cases, bedspreads; printed linens for curtains and wall coverings, upholstery, chair covers, and so on; towels (damask, white and colored), toweling (damask and plain with colored borders); peasant handicraft in the form of textiles with stitched and embroidered designs; hand-woven articles with embroideries; hand-printed linens.

Exportless—All-Union Timber Export Corporation. It exports raw and finished sawn lumber, pulpwood, plywood, veneers, and so on.

Exportstroi—All-Union Corporation, or Combine, for the installation of Soviet machines and equipment and technical assistance in Eastern countries. Separate corporations are organized for the respective countries. For example, in Turkey, Turkostroi has equipped several textile mills. This corporation operates under the Ministry for Heavy Industry.

Neftexport—All-Union Combine for export of crude petroleum and petroleum products. It exports gasoline, kerosene, white spirit, transformer oil, lubricating oils, fuel oil, gas oil, asphalt, and so on.

Promexport—All-Union Combine for industrial exports. It sells industrial chemicals: glycerin, potassium and sodium bichromates, sodium sulphide, potassium chlorate, caustic potash, phenol, red phosphorus, formic acid, sodium nitrate, aniline salts, aniline oils, hyposulphite, aniline dyes, and so on; coke and wood distillation products: benzol, solvents, coal tar pitch, balsam turpentine, spirit of turpentine, paraffin; potassium salts and fertilizers: potassium salts of various grades, potassium chlorate, apatite ore containing 60 to 66 per cent tricalcium phosphate or up to 30 per cent P_2O_5 for metallurgical and chemical industries; apatite concentrates containing up to 86 per cent tricalcium phosphate or up to 40 per cent P_2O_5 for the manufacture of superphosphate; superphosphate, sulphate of ammonia, potassium nitrate, and so on; manganese and iron ores: washed manganese ore, 50 to 52 per cent Mn; unwashed manganese ore containing 45 to 48 per cent Mn; manganese dioxide containing not less than 85 per cent MnO_2 ; iron ore; asbestos and minerals: Ural asbestos—textile, shingle, and all other grades; kaolin, magnesite; pig iron: foundry and basic pig iron.

*Raznoexport**—All-Union Corporation, or Combine, for the export of miscellaneous products. It has branch offices in Leningrad, Odessa, Novorossisk, Kharkov, Baku, Djulfa, Sukhum, Sochi, Ashkhabad, and Vladivostok. Its exports are animal products: bristles, horse, cow, goat, badger hair, feathers, casings; hides and skins: raw and dressed cow pelts, sheepskins, goatskins, and so on; textile and other waste products: wool, rags, flax and hemp waste, linen tow, cotton linters, and so on; carpets: Bokhara, Kazak, Shirvan, Dorbent, and so on; licorice root; crude drugs, pharmaceutical chemicals; tobacco. nicotine; matches,

match splints; minerals: chalk, bleaching clay, quartz sand, and so on; salt; silicates: glass and chinaware, crockery, and so on; cement.

Raznoexport sells small hides and imports large hides and skins and leather from abroad.

Soviet Philatelic Association—exports postage stamps and coins.

Soyuzpushnina—All-Union Fur Combine for the export of animals for zoos; many varieties of raw, dressed, and natural furs and skins; fur apparel—coats, furs, collars, trimmings, and so on.

*Soyuzugleexport**—All-Union Combine for the export and import of coal. It maintains bunker stations in Mariupol, Nikolaev, Odessa, Poti, Novorossisk, Theodosia, Leningrad. It exports first-grade Donetsk anthracite in all sizes according to American and English standards; Donetsk Basin bituminous coal—high calorie and low ash; Flotsky ("F"), run of the mine and screened, a bunker coal, also for production of gas coke; gas coal ("G")—"splint" type, screened from 2 to 5 inches and over; steam coal (PS)—coking, run of the mine, and screened; steam coal (MB)—"Cardiff" type, screened coal; coal briquettes, 5 and 2½ kilograms.

Tekhnoexport—All-Union Export Combine for technical equipment manufactured in the U.S.S.R. It exports metalworking machinery: lathes, screw-cutting machines, planers, milling machines, universal milling machines, and so on; woodworking machinery: planers, circular saws, shapers, and so on; instruments and tools, cutting, measuring, woodworking, assembling, and the like; ball and roller bearings; textile machinery: weaving and spinning machines; peat-working equipment, milling equipment, canning equipment, and refrigeration equipment; road machinery: motor rollers, rock crushers, snow removers, and so on; sewing machines: hand, foot, cabinet, factory, and so on; generators, transformers, motors, tungsten, electrical measuring instruments, electric lamps, projectors, telephone stations, telephones, commutators, radio tubes, and so on; welding equipment; agricultural machinery: plows, harrows, cultivators, seeders, harvesters, reapers, threshers, grain cleaners; tractors: wheel,

track-laying, and rubber-tired for transport uses; metals and metal articles.

It may be useful to the importer or exporter to know that Sovfracht is the All-Union Combine for the chartering of foreign and domestic tonnage for cargoes. Vneshtorgtrans arranges all transport to or from ships, storage, loading and unloading, stevedoring, and insurance. Both Sovfracht and Vneshtorgtrans have the right to operate in foreign markets. Their branch in Leningrad is Lenvnestrans, and in Odessa, Yuzhnestrans. The former handles goods passing through the North and Baltic seas and their ports. The latter is for shipments through the Black Sea and its tributaries. Other branches will probably be opened in the newly acquired ports of Memel and Riga. Iransovtrans handles transportation via Iran. All ships in Russian ports must clear on entrance and exit with Sovtorgflot.

Many of the export and import combines have branches in various parts of the Union of Soviet Socialist Republics, but the purchases and sales for all regions are affected by the Moscow offices, with the exception of the Maritime Province in the Far Eastern area of Siberia.

In the Maritime Province, trade operated somewhat differently. Formalities in foreign trade were reduced to a minimum. Imports to the Maritime Province were license free, tax and excise free. A certain quota for imports was approved by the People's Commissar for Foreign Trade in Moscow annually, and the trading organizations lived up to this requirement. The trading organizations might carry out the quotas as they saw fit. They were:

Dalgotorg—established in Khabarovsk in 1924, as the export and import trading corporation.

Dalles—the Far East Timber Company, handled timber exports.

Far Eastern Mercantile Marine—operated under the direction of Sovtorgflot.

Dalbank—a special bank for Far East export-import trade.

Japan and China were the main countries that profited from the simplified trade in the Maritime Province. Little was known in the United States about trade operations in this area. If the same plan continues to operate in the post-war era, it would be well for Americans to be more active in this market.

Another deviation in connection with trade in the Middle and Far East is the existence of special organizations in Moscow which buy and sell for the Soviet Union in specific areas. These are:

Sovafgantorg—for trade with Afghanistan.

Sovmongtvtorg—for trade with Mongolia and Tanna Tuva.

Sovsintorg—for trade with Sinkiang.

Sovirantvtorg—for trade with Iran and Turkey.

Vostokintorg—for trade with other countries of the Middle East.

The main offices of these combines are in Moscow. Branches are in various parts of the Union.

The All-Union Combines listed on pages 31 to 37 are the ones of main interest to the United States and other Western countries. Before 1930 it was necessary to contact private Russian companies or co-operatives, or mixed companies; that is, businesses in which the Soviet Union owned a half interest and private enterprise the other half, or exclusively government-owned agencies, depending on which type of organization controlled the purchase or sale of the commodity concerned. Since the reorganization necessitated by the decree of the Commissariat for Foreign Trade on February 6, 1930, the state took over complete control of all export

and import transactions by setting up special organizations or combines to conduct this trade.

It was not until the decree of the Council of People's Commissars of July 27, 1935, that the export, import, and transport combines were empowered to conclude transactions on their own behalf with foreign firms both within the U.S.S.R. and abroad. These combines enjoy a monopoly in the purchase and sale in foreign markets of the particular classes of goods assigned to them and may accept and issue bills of exchange.

The number of these organizations and the commodities they have handled have changed from time to time in order to improve and simplify transactions and in order to centralize completely the authority of most of these organizations in the Ministry for Foreign Trade. Changes occur from time to time. Recent changes may be verified at the Amtorg Trading Corporation in New York, U.S. government offices in Washington and Moscow, or the American-Russian Chamber of Commerce, New York.

Programs are assigned to the various importing organizations specifying the maximum amount of expenditures and the period of payment. Similarly, export organizations take orders and make shipments in accordance with the predetermined plan. By this means the Ministry for Foreign Trade controls export and import transactions and assures payment in accordance with the obligations undertaken. All the operations fit into the general plan of foreign trade, which is reviewed annually and divided into quarterly and sometimes monthly assignments.

The functions of these organizations, or combines, are operative and administrative. They carry on export and import transactions, draft plans for foreign trade, establish technical conditions and standards, draw up standard

specifications, inspect quality, check deliveries, handle accounts with the suppliers and clients. To assist them in the preparation of their plans, there are commissioners resident in the various areas of the Soviet Union. In allied republics they are ex-officio members of the Republican Sovnarkoms, and in regions and provinces they are members of the central executive authorities. Their responsibilities in matters of planning, regulation, and control of foreign trade, warehousing, and transport within their respective areas are considerable. In connection with their work to further exports they are assisted in the respective areas by auxiliary organizations called Export Conferences.

The central export-import combines also study foreign markets; they study improvements made in foreign technique as well as the possibility for improvements in the U.S.S.R. They conduct negotiations with representatives of foreign firms coming to the U.S.S.R., and may conclude all kinds of contracts, transactions and operations, including loans and bills of exchange with institutions, enterprises, and individuals both within the U.S.S.R. and abroad. The combines, being legal entities, have the right to conclude agreements independently, that is to say, "for the validity of these agreements and sanction of the higher organs, in particular that of the Ministry for Foreign Trade, is unnecessary." But in some cases, and under special conditions, a statement may be included in an agreement indicating that the transaction becomes valid only after its confirmation by the Ministry for Foreign Trade or by the trade delegation. According to Soviet explanation, "This permission is simply an act regulating foreign trade and does not imply the responsibility of the organ granting it."

According to the decree of October 13, 1930, agreements with foreign firms, bills of exchange, and other monetary

obligations connected with foreign trade, as well as powers of attorney to conclude such contracts or to issue bills of exchange or to contract other monetary obligations, must be signed by two persons. Those authorized to sign are the chairman and vice-chairmen, or persons designated by the chairman or vice-chairmen through power of attorney.

For similar transactions concluded abroad two signatures are also required, the Soviet combine representative and his assistant, or the head of the trade delegation and another member of the trade delegation mentioned in a special list approved by the Ministry for Foreign Trade. Or if the transaction is concluded in the U.S.S.R., outside of Moscow, the signators may be chosen from an approved list printed in *Vneshnyaya Torgovlya*, the official magazine of the Ministry for Foreign Trade.

All payments by and to Soviet combines for foreign trade operations are made through the State Bank of the U.S.S.R. or through its subsidiary, the Bank for Foreign Trade. The State Bank is the only bank in the Soviet Union that handles foreign currency, and the actual payments abroad are effected through its correspondents in various parts of the world. For this purpose the State Bank maintains deposits in many foreign countries.

The export-import combines, as independent business units, operate on a self-supporting basis by means of commissions received for all transactions concluded.

They may bring and answer suit in law and arbitration courts. They are liable to the extent of such of their property as may be legally attached. The property that may be attached is their basic capital, which, according to Soviet law, can be distrained. They bear no responsibility for acts, obligations, and debts of the Soviet state, its departments or local Soviets, nor for those of the trade representatives of the U.S.S.R. in

foreign countries. Likewise, other state organizations or departments and local Soviets bear no responsibility for the obligations and debts of the separate state export and import combines.

The responsibility of state trading organizations was first established by the decree of October 16, 1922, which states:

Transactions in foreign trade create obligations only for those central state and local economic organizations which have signed these transactions. The liability of these organizations is limited to property belonging to them. The state, the People's Commissariats, and the separate departments under whose jurisdiction these organizations operate, bear no joint or additional liability in respect of their property.

The principle of responsibility of export and import combines and trade delegations is further clarified in the 1936 Civil Code of the R.S.F.S.R.,² Article 19, which states:

State trading organizations and their corporations transferred to a self-supporting basis and not provided for financially in a state budget, are answerable for their debts only by property at their unlimited disposal, i.e., not accrued from the turnover.

Turnover refers to moneys obtained through the sale of goods. In other words, the law means that no more than the original basic capital may be attached.

The Economic Council of the R.S.F.S.R. on March 10, 1930, adopted the following law with respect to the status of the All-Russian Combines:

A combine is not answerable for the debts of the state and local Soviets.

This provision is also contained in all statutes of the All-Union Combines carrying on foreign trade. For example,

² The RSFSR is the largest of the republics comprising the Soviet Union. It comprises all of Siberia and most of the central and northern areas of European Russia, including Leningrad and Moscow. RSFSR stands for Russia Soviet Federated Socialist Republic. It was organized in 1917.

Section 4 of the statutes of the All-Union Combine for the import of iron and steel products—Soyuzmetimport—approved by the Commissariat for Foreign Trade on February 21, 1935, points out:

Soyuzmetimport bears no responsibility for claims relating to the state, its organs or other organizations.

The Soviet government has also established special rules for state organizations, which are separate legal entities operating on a self-supporting basis, and which carry on their functions at their own risk. According to these rules, they may utilize all the state property that is at their unlimited disposal to satisfy creditors. Immovable property and money made from turnover is at their limited disposal and may neither be alienated, mortgaged, nor taken into execution to satisfy creditors. The capital allocated to the unlimited disposal of the organizations or combines in question is sufficiently adequate to guarantee the execution of large transactions.

While these major export and import combines act as sole buyers and sellers to carry out the foreign trade plans of the Ministry for Foreign Trade, several agencies enter into the decision before a purchase order is executed. The combines do not select arbitrarily the type of product desired. The purchase order for foreign products usually originates in the individual factory or distributing agency. For this reason, in addition to becoming acquainted with the chairmen or vice-chairmen of the import combines, contact with other organizations is advantageous especially when one's product is competitive.

If the proposed sale is for intricate machinery, it is best that a representative go to Russia for a preliminary discussion on many points. He should visit the establishments that

plan the purchase to investigate the technical conditions under which the Russians work, to ascertain what the preferences are, and to determine how his methods need to be altered in order to compete with other foreign offers. A preliminary visit will also help him to realize the psychology of his customers. This is important to aid the sale of any manufactures in the Russian market.

To appreciate more fully the importance of contact with the factory, let us consider the procedure for the purchase of a textile machine. The management of the factory in the Soviet Union will first carefully examine catalogues, advertisements, and other illustrated material to determine the most useful type of machine for its purpose. Several weeks or even months may be taken to decide on the preferred machinery. The management may communicate directly with foreign firms with respect to technical matters, or it may visit an exhibit in Russia where foreign machinery is displayed, or it may ask the import combine to make investigations. In the last case the inquiry is made by the combine either from Moscow or through the foreign trading delegation. And during these investigations, the representative of a foreign firm in the Soviet Union can exercise an important influence.

After the tentative decision is made, the management of the factory will apply to Technopromimport in Moscow for a license to import the machinery desired. The import combine, upon receiving the application for this license, will investigate the financial ability of the factory to purchase this machinery and also whether the purchase conforms with quota plans set for the increase of textile production in the particular area and factory to which the machinery would be destined.

In accordance with the plan of the State Planning Depart-

ment (Gosplan), the quota is based on the annual financial allotments for textile machinery purchases from abroad. The annual allotments are divided on a quarterly basis, and before each quarter the Ministry for Foreign Trade informs the import combine of its quota.

If, in the opinion of the officials of Technopromimport, the output and financial position of the mill and the quarterly plan of imports justifies the purchase of a machine, the Ministry for Foreign Trade issues the license. Then the combine sends inquiries to one or more companies in foreign countries for the purpose of obtaining latest quotations, credits, terms, and so on.

In requesting the appropriate combine to make purchases, the factory or distributing organization describes the article or articles it desires to purchase and at times furnishes the name of the firm or firms that manufacture the desired items. The purchase is based on definite specifications, price, terms, credit, delivery date, and so on.

If the representative is in the Soviet Union, the order may be executed there. Otherwise, it is sent for execution to the trade delegation abroad.

It is important to file advertisements, catalogues, and descriptive literature, written in Russian which is grammatically and technically correct and in accordance with the Soviet style of lettering. Weights and measures should be in Russian terms, and tentative price lists should be included. These are essential in advance of a personal visit. It is preferable also to send letters to (1) the import combine; (2) the ministry responsible for the domestic production if it is involved in the purchase; (3) the trust controlling the group of factories or the central distributing agency, whichever is involved; and (4) the factories and distributing agencies using or allocating the goods under consideration. Commodities

imported for consumption and not requiring additional manufacture are handled through distributing agencies and the respective import combine.

As has already been indicated, advertisements in Soviet papers and periodicals are accepted by Amtorg in New York and by Inreklama in Moscow. Catalogues, pamphlets, and other material are distributed by the information libraries of the import combines, by a number of ministries, and by the All-Union Chamber of Commerce in Moscow.

To obtain consumer business, trademarks will become increasingly important in the Soviet Union. For this reason, contact with the public through advertising in newspapers, over radio, and by other means is going to play a significant role in Soviet sales. The trend began in 1936 when a special order of the Commissariat for Internal Trade made it compulsory for trusts to set up electrical displays over shops, to make extensive use of radio and press for advertising purposes, and to utilize postcards, envelopes, wrapping paper and containers to popularize the increasing assortments of foodstuffs and consumers' goods. The order also provides that labels of certain foodstuffs contain an analysis and certificate of scientific research institutes stating the quality and nutritive value of these products. Stores selling radio sets, electrical equipment, and sewing machines are obliged to attach special instructions on the use and care of these articles.

A recent decree "forbids enterprises from turning out goods without properly labeling or marking them." Thus far the decrees have been mainly concerned with the establishment of trademarks for foods, cosmetics, cooking utensils, and other household items. The Soviet Union, however, has established standards for the contents and methods of production of a number of other products. Pamphlets containing information about each of these commodities are published by GOST, Moscow.

American trademarks are acceptable in the Soviet Union because, according to Soviet law, a foreigner may record his trademark in the U.S.S.R. provided the country of the applicant grants the same privilege to Soviet citizens and commercial organizations. And our laws do grant this privilege to nationals of the Soviet Union.

The U.S.S.R. has established such reciprocal relation with some countries by means of an exchange of notes. Those countries are Austria, Italy, Denmark, Sweden, and Finland. However, the United States has held first place in the registration of trademarks and Germany ranked second up to World War II.

Trademarks may be pictorial or verbal, but they may not include the symbol of the Red Cross or the Red Crescent. Trademarks are transferable provided the transfer is registered. Infringers are prosecuted in the U.S.S.R. The use of the trademark previous to registration is not allowed. In fact Soviet courts have ruled that trademarks which have been commonly used in other countries may be refused registration.

Trademarks are issued for the period of time desired by the applicant, but a registration may be cancelled by the courts or by the Trademark Commission upon complaint from the government or manufacturing organizations.

Trademarks used on machinery, construction materials, and industrial chemicals are registered by the Ministry for Heavy Industry. Trademarks on medical supplies and instruments are registered with the Ministry for Public Health. Those for use on other classes of goods are registered by the Ministry for Internal Trade.

Patents are registered in the Patent Bureau of the All-Union Chamber of Commerce in Leningrad—Nab. Krasnaya Flota, 10. This agency may be contacted for any official in-

formation relating to patents. It acts as agent for the patentee during the proceedings and the life of the patent.

Two basic laws were enacted with respect to patents: first, the decree of September 12, 1924, which permitted the inventor to exploit his patent. After the liquidation of private enterprise, during the first Five-Year Plan, there was enacted the decree of April 9, 1931, by which the inventor may receive a lump sum or an annual award, but the patent becomes the property of the state. Awards for inventions which economize production are based on the extent of the economy as follows:

ANNUAL SAVINGS IN RUBLES	AMOUNT OF REWARD IN RUBLES
Up to 500	20% of saving, plus 50 R.
500 to 1,000	15% of saving, plus 100 R.
1,000 to 5,000	12% of saving, plus 250 R.
5,000 to 10,000	10% of saving, plus 450 R.
10,000 to 50,000	6% of saving, plus 2,450 R.
50,000 to 100,000	5% of saving, plus 3,450 R.
100,000 to 250,000	4% of saving, plus 5,950 R.
250,000 to 500,000	3% of saving, plus 10,950 R.
500,000 to 1,000,000	2% of saving, plus 20,950 R.
1,000,000 or over	maximum 100,000 R.

Remuneration at a lower rate is granted for adaptable proposals for technical or organizational improvement, not necessarily new in world technique, but new in the U.S.S.R.

The U.S.S.R. is not a member of the International Convention for the Protection of Industrial Property, which permits member nations twelve months in which to file an application after the one filed in the applicant's country. A patent application must be filed in the U.S.S.R. before it is published by the patent office of any other nation. On an average two to six years elapse between the date of filing an application for a patent and the final decision by the Soviet authorities. Patents are issued for fifteen years. They must be

put into use within three years of the granting of the permit.

Patents may not be exploited without the consent of the patent holders. Foreign patents, as a rule, are bought outright by one of the huge trusts into which the industries of the U.S.S.R. are organized. Frequently the foreign patentee is granted a contract for technical service and the supply of equipment for an agreed purchase price. Royalties are at present not allowed.

The State Department and the National Association of Manufacturers are active in seeking the adoption of some form of international agreement by the Soviet Union which would recognize patent rights on a royalty basis. Thus far the U.S.S.R. has made special agreements with only two countries, Germany and Norway, for protection of industrial property including patents for inventions. For the duration of World War II, the Soviet Union agreed to protect the interests of American patentees of articles of defense.

The United States is asking the Soviet Union to provide compensation to American firms for the use of their patented processes supplied the Soviet Government under Lend-Lease during the war.

For a list of documents and fees required in connection with the registration of trademarks or patents see Appendix 1.

An important aid in getting one's product before the Russians is the exhibition. During peacetime, exhibitions of possible imports are conducted frequently in various parts of the Soviet Union. In the past, import combines have purchased over 90 per cent of the exhibits. And there is no reason to believe that equally good results will not obtain in the future. For one such exhibit, Technopromimport arranged for the display of motorcars, spare parts, cycles, and so on, building equipment, laboratory equipment, a plant

for the paper industry, printing machinery, food-making machinery, machinery for laundries, for bakeries, for dairying, hunting and fishing equipment, and kitchen appliances.

Since Soviet exports play such an important role in determining purchases for the Soviet economy, the export exhibit is extremely important. There is a permanent exhibit of exports at the Museum of Soviet Exports located in Moscow. Other exhibits take place in various cities from time to time. The most important of these are the fur exhibit and auctions which take place annually in Leningrad. Americans are well represented at the yearly fur exhibit, and their trade with the Soviet Union has aided in the improvement of general Russian-American trade relations.

The display in the Museum of Soviet Exports and other exhibits of foreign or Soviet products are arranged by the All-Union Chamber of Commerce in Moscow. The All-Union Chamber also acts as an information center for sellers and buyers visiting the Soviet Union. It issues certificates of origin of Soviet goods. It registers and systematizes customs legislation and supplies information regarding tariffs and customs formalities.

Under its auspices there functions a Foreign Trade Arbitration Commission and a Maritime Arbitration Commission. The purpose of the former is to examine disputes arising out of transactions between Soviet trade combines and foreign firms. The latter exists for settling disputes arising from salvage and assistance at sea in Soviet waters. It has a department for Trade with the East. And the branches of the Chamber in the Ukraine and in Transcaucasia are mainly concerned with Eastern trade.

In the United States arrangements for American exhibits in the Soviet Union may be made through the Amtorg Trading Corporation in New York.

There is no doubt that Amtorg will continue to play an important part in American-Russian trade even if most contracts are signed in Moscow. For this reason some facts about its nature and organization should prove of value to American businessmen.

Amtorg (Russian abbreviation for "American trade") was incorporated on May 27, 1924, under the laws of the state of New York for the purpose of buying for Russia and selling Russian products. It consolidated two previously existing corporations, the Products Exchange Corporation and Arcos-America, and later absorbed other Soviet trading organizations operating independently. Among these were the All-Russian Textile Syndicate, Centrosoyuz-America (the central co-operative for purchase and sale mainly of consumers' goods), and Selskosoyuz-America (the central co-operative for purchase and sale of agricultural products). There still exist, however, several independent companies concerned with literary and art matters. They are Sovphoto, an agency for the distribution of photographs from the Soviet Union; Artkino, formerly Sovkino, which has a monopoly of the distribution of Russian motion pictures and the purchase of American films; the Am-Rus Music Corporation, under contract with the Leeds Music Corporation to handle the rental library of Soviet music for performances here and the publication of Am-Rus editions of certain Soviet music; and the Four-Continent Book Corporation.

For a short time in the late thirties there existed an organization, entitled Carp, which represented the Soviet Union in the United States. It was named after its director, Mr. Carp, an American relative of a prominent Soviet official, who originally owned a chain of gas stations in Bridgeport, Connecticut. Prior to 1939 he purchased some war equipment, munitions, and other war apparatus for the

Soviet Union. It is understood that the intention was to have him buy all munitions and war apparatus, but the organization appears to have been dissolved at the beginning of World War II. Amtorg remained the official Soviet trading representation in the United States and worked in close co-operation with the Russian Purchasing Commission in Washington in connection with Lend-Lease shipments during the war. Since the end of World War II, Amtorg has been negotiating and concluding most American-Russian trade.

Although Amtorg is legally an American corporation, in other respects, including its personnel, it is Russian. Originally Amtorg was an agent of the Commissariat for Foreign Trade when the latter was responsible for export and import operations. Since the Commissariat for Foreign Trade became a supervisory, planning and recording body in 1935, Amtorg became the agent of the export and import combines that are responsible for carrying out trade operations under the direction of the Commissariat (now Ministry) for Foreign Trade.

Its paid-up capital, originally \$1 million, was twice increased. It is now \$3 million. The majority of the stock is said to be owned by the Soviet export and import combines participating in the foreign trade. All the stock is on record in the name of the chairman of the Board of Directors as trustee for the Bank for Foreign Trade in Moscow, which is a branch of the State Bank of the U.S.S.R. and through which pass all transactions involved in Russian foreign trade.

The chairman of the Board of Directors of Amtorg is now I. A. Eremin, who was appointed by the Council of Ministers, as are all heads of trade combines or corporations.

Amtorg in New York acts as a contact or public relations body for the various export-import combines that make up

its organization, and as a supervisory body over departments which have other functions. The duties originally outlined for trade representations were to watch markets, market conditions, and trade of foreign countries, to supervise the development of the foreign trade and goods transfers between the U.S.S.R. and foreign countries, to carry out all operations of imports and exports, and finally the discharge of all matters relating to finance, settlement, and insurance. Amtorg's primary functions today may be summarized as follows: (1) to foster trade and economic relations and to represent and defend the interests of the Soviet Union; (2) to carry on trade between the Soviet Union and the United States through the departments headed by representatives of the export and import combines.

The organizational structure of the export-import combines in the various trade representations (corporations or delegations) abroad varies with the conditions prevailing in the respective countries and the size and complexity of the transactions in the specific classes of goods handled. Thus the import and export combines each have one or more representatives or one man may represent several organizations, depending on the volume of the trade. Sometimes a branch office is maintained temporarily, but usually those export and import combines whose commodities play a major part in the trade of a particular country have permanent branch offices in the trading corporation or delegation. A delegation may also house foreign companies which the Soviet Union has designated for the distribution of certain of its exports.

In Amtorg there are also representatives of the Ministries for Heavy Industry, Light Industry, Food Industry, and so on, which transmit technical information and proposals for technical assistance to their principals in the U.S.S.R. In

addition, Amtorg frequently houses commissions of technicians and industrialists sent to the United States by the Soviet Union to study developments in their respective fields and to maintain close contact with the newest achievements in American industry. Upon the recommendations of these commissions frequently depends the final selection of the products to be purchased.

When there is no commission or representative in the United States of a department which is interested in a particular item, Amtorg may be requested to furnish information about such an item made in the United States. It then tries to get all the detailed information about the article, the materials that go into it, and how it is produced.

If orders are consummated by the import combines in Moscow, Amtorg receives copies of the contracts and is thus in a position to handle many of the subsequent details. It also furnishes information to parties concerned regarding any matters cropping up in the course of transactions. It arranges for preliminary inspection of the merchandise while in process of production and again upon acceptance. For this purpose there is maintained a corps of special inspectors. It follows up the deliveries, handles the shipping arrangements, and where specified, makes the payments when they come due. In other words, it accomplishes the acceptance, expediting, insurance of goods, and other closely related acts, including financing. In some cases payment is made directly by the import organization upon receipt from the shipper of the required documents, such as dock receipts, inspection certificate, letter of guarantee, and so on.

When Amtorg buys directly, it handles all the negotiations, the drawing up and signing of agreements, including all details in connection with the shipment and payments as mentioned above. Licenses for exports to the Soviet Union are

obtained from Amtorg no matter where the sales and agreements were concluded. An import license is required for all shipments to the Soviet Union. The fee is 2 per cent of the valuation unless a concession has been made in the agreement.

For this work the Soviet Union pays Amtorg on a commission basis. These commissions range from $\frac{1}{2}$ to $2\frac{1}{2}$ per cent depending on how much of the transaction is completed in the United States and the nature of the product. No commissions are paid for exports from Russia, although Amtorg may have many details to arrange in connection with them. Fifty per cent of the net receipts up to \$100,000, and 60 per cent of any amounts above that sum, must be remitted to the Ministry for Foreign Trade in Moscow.

Amtorg's activities in connection with advertising are important to the American businessman. Inreklama, the department in the Soviet Union that places and accepts advertisements, has an office in Amtorg. Amtorg itself has a publishing division which issues a monthly technical periodical, called *American Engineering and Industry*, which is published in Russian. It is largely made up of advertisements. Its purpose as set forth on the title page is:

To familiarize the Soviet Union with the latest developments in the field of American engineering and industrial practice. For the promotion of closer technical and trade relations between the United States and the Soviet Union.

American manufacturers are the advertisers and Russian technical experts write the articles and draw the charts.

This magazine is one of the means by which Russia's technicians at home, as well as her representatives in the United States, keep abreast of the latest developments in American machinery which in the past made up more than half the Soviet's total imports from us.

Amtorg also assists in disseminating information regarding

American industry in its *Catalog of American Engineering and Industry*. The last issue was published in 1946 and contains over 1,500 pages. It is printed in Russian and includes voluminous textual matter, advertisements, and lists of firms and products. It is undoubtedly one of the most comprehensive publications of its kind ever prepared for distribution in a foreign country.

The Publication Division of Amtorg also gives assistance to Americans in the compilation and translation of special leaflets, in the preparation of suitable mailing lists, and in translating inquiries from the U.S.S.R.

An American doing business with Amtorg will no doubt want to know about its legal responsibility, and its status as an organization in the United States. It is interesting to compare the latter with that of delegations in foreign countries and the attitude of the Soviet Union toward its trade representatives.

It may have been noted that the word "corporation" as applied to Amtorg has been used synonymously with the word "delegation." In countries outside the United States, the U.S.S.R. trading offices are called delegations rather than corporations. There is an important difference in the meaning of the two terms. *Delegation* implies the granting of diplomatic rights, *corporation* does not.

Since the beginning of Soviet trade with the Western world, the Soviet Union has insisted that the heads of its trade offices in foreign lands be considered a part of the Soviet diplomatic missions and, as members of diplomatic missions, that they be granted rights of extraterritoriality in trade agreements with the Soviet Union. This means immunity from the laws of a foreign state, as is usually granted diplomatic missions. In the case of the trade representatives, it means that the delegation is not required to register as a commercial undertaking, that transactions are not subject

to the jurisdiction of foreign courts, and that its assets are not liable to attachment. These rights were insisted on and granted in trade agreements with Germany (1925), with Italy (1924), with Sweden (1927), with the United Kingdom (1934), with Czechoslovakia (1935), and with several other countries.

In those agreements it is stated that the trade representatives are members of the diplomatic mission, that the personnel and offices of the trade representatives enjoy extraterritoriality, and that the Soviet government is not responsible for agreements concluded by them. In the agreement with Germany, the limits of German jurisdiction are defined.

The Soviet Union has taken the stand that the conclusion of a contract by a trade delegation is an act regulating Soviet foreign trade. It does not entail the civil responsibility of the trade delegation. International law supports the principle that an organ of one country does not come under the jurisdiction of the courts of another country, even when it acts in an industrial or commercial capacity, and that a foreign country may be subject to local jurisdiction only on condition of its consent thereto.

However, even to states with which agreements exist, the Soviet government makes concessions by agreeing that certain of its transactions are subject to foreign law and the jurisdiction of foreign courts. Such provision is contained in the original agreement with Germany. And, because of the Soviet Union's desire to facilitate trade, the government delegates power to the trade representatives to include in contracts a provision for their liability in a foreign court.

The United States has not yet signed any *formal* peacetime trade agreement with the Soviet Union and, as far as our laws go, Amtorg is a corporation organized under the laws of the state of New York. The Soviet Union, however, has taken the position that the same rights should be granted

to a trading corporation in countries which have no trade agreements with the U.S.S.R.

But by the decree of September 1933 trade representatives of the U.S.S.R. in foreign countries, acting on behalf of the state, are answerable only for their own acts and obligations, and bear no responsibility for acts, obligations, and debts of the Soviet state and other state organizations, unless they—that is, the representatives themselves—clearly accept responsibility. Firms must therefore make certain that contracts contain adequate protection within the framework of the Soviet law.

Another decree of November 19, 1933, states in Section 6:

Permission or approval by state representatives in the form of regulation of foreign trade transactions made by other organizations does not mean acceptance by trade representatives of any obligations.

This is interpreted to mean that neither Amtorg nor any other trade representation or delegation undertakes responsibility for contracts concluded on behalf of export or import combines. The responsibility for the fulfillment of these agreements lies with the export or import combines per se. All claims connected with these agreements must be made direct to the combine itself.

Amtorg, which represents the various Soviet economic and trading organizations, is the agency in the United States to contact for all types of contracts with the Soviet Union. In Moscow, however, one gets in touch with the import or export combines for sales or purchase agreements, and also, if possible, with factories or distribution centers in the U.S.S.R., depending on one's product. Concerned in technical-aid contracts or concessions are a network of production trusts and combined industrial groups throughout the Soviet Union. Among these are a series of coal trusts for each coal

region, such as the Donetz Coal Trust, a series of engineering and machine trusts, such as the Moscow Engineering Trust or Leningrad Engineering Trust, the Moscow Machine Trust or Leningrad Machine Trust. Irrigation undertakings, mining, oil, and lumber projects are divided into groups by areas, as Sredazvodkhoz (Central Asiatic Water Economy), Severless (Northern Lumber Trust), Yurt (Southern Ore Trust), Grozneft (Grozny Oil Combine), and so on.

Some combined groups are national, like Avtotrust (Automobile Trust), Aluminstroi (Bureau for Construction of Aluminum Plants), Giprometz (State Institute for Designing Steel Mills), GET (State Electro-Technical Trust), Tzvetmetzoloto (Nonferrous Metals and Gold Combine), the United Chemical Industries, the Weak Current Trust, and others.

Since changes take place in the names and nature of the organizations from time to time, it is advisable to check opportunities in Moscow by consulting the Concessions Department of the Ministry for Foreign Trade and the respective ministry concerned with the possibilities of certain trade or production expansion within the Soviet Union. The following is a list of the ministries, excluding Justice and Culture:

MINISTRY

Agriculture

Agricultural Machine Building

Agricultural Supplies

Alcoholic Beverages

Armaments

Armed Forces

Automobile Industry

Aviation Industry

CHIEF

Benediktov, Ivan Aleksandrovich

Goremykin, Peter N.

Dvinsky, Boris Aleksandrovich

Pronin, Nikolai Ilyich

Ustinov, Col. Gen. Dimitrii
Fedorovich

Bulgamin, Marshal Nikolai

Akopov, Stepan Akopovich

Khrunichev, Lt. Gen. Mikhail
Vasilievich

MINISTRY

CHIEF

Building Materials Industry	Ginsburg, Semyon Zakharovich
Cellulose and Paper Industry	Orlov, Georgii Mikhailovich
Cinematography	Bolshakov, Ivan Grigorievich
Chemical Industry	Pervukhin, Mikhail Georgievich
Coal Industry, Eastern Regions	Vakhrushev, Vasilii Vasilievich
Coal Industry, Western Regions	Onika, Dmitrii Grigorievich
Communications	Sergeichuk, Konstantin Yakovlevich
Construction of Enterprises of Heavy Industry	Yudin, Pavel Aleksandrovich
Construction of Fuel Enterprises	Zademidko, Aleksandr Nikolaievich
Construction of Military and Naval Enterprises	Dygai, N. A.
Electrical (Equipment) Industry	Kabanov, Ivan Grigorievich
Electrical Power Stations	Zhimerin, Dmitrii Georgievich
Ferrous Metallurgy	Tevosyan, Ivan Tevadosovich
Finance	Kosygin, A. Nikolai
Fish Industry, Eastern Regions	Zakharov, Andrei Semenovich
Fish Industry, Western Regions	Ishkov, Aleksandr Akimovich
Food Industry	Zotov, Vasilii Petrovich
Food Reserves	Fomin, Dmitrii Ivanovich
Foreign Affairs	Molotov, Vyacheslav Mikhailovich
Foreign Trade	Mikoyan, Anastas Ivanovich
Forestry	Motovilov, G. P.
Geology	Malyshev, Ilya Ilych
Heavy Machine Building	Kazakov, Nikolai Stepanovich
Higher Education	Kaftanov, Sergei Vasilievich
Housing	Ignatov, Boris
Industrial Crops	Skvortsov, Nikolai Aleksandrovich
Internal Affairs	Kruglov, Col. Gen. Sergei Niki-forovich
Labor Reserves	Pronin, Vasilii Prokhorovich

MINISTRY

Light Industry
 Livestock
 Machine and Instrument
 Construction
 Machine Tools Construction

 Material Reserves
 Means of Communication
 Industry
 Meat and Dairy Industry
 Medical Industry
 Mercantile Marine (ocean)
 Mercantile Marine (river)
 Nonferrous Metallurgy
 Oil Industry, Eastern Regions

 Oil Industry, Western and
 Southern Regions
 Paper and Cellulose Industries
 Public Health
 Religious Affairs
 Road and Construction
 Machine Building
 Rubber Industry
 Shipbuilding Industry
 State Control
 State Farms
 State Security

 Textile Industry
 Timber Industry
 Trade (internal)
 Transport

 Transport Machine Building

CHIEF

Chesnokov, Nikolai
 Kozlov, Aleksei Ivanovich
 Parshin, Col. Gen. Petr Ivanovich
 Efremov, Aleksandr Illarionovich
 Danchenko, Mikhail Vasilievich
 Zubovich, Ivan Gerasimovich

 Kuzminykh, I. A.
 Tretyakov, Andrei Fedorovich
 Shirshov, Petr Petrovich
 Shashkov, Zosima Aleseievich
 Lomako, Petr Fadeievich
 Evseienko, Mikhail Andreiano-
 vich
 Baibakov, Nikolai Konstan-
 tinovich
 Komarov, S. M.
 Smirnov, E. I.
 Karpov, Georgii Grigorievich
 Sokolov, Konstantin Mikhailo-
 vich
 Mitrokhin, Tikhon Borisovich
 Goreglyad, Aleksei Adamovich
 Mekhlis, Lev Zakharovich
 Skvortsov, Nikolai A.
 Merkulov, Army Gen. Vsevolod
 Nikolaievich
 Sedin, Ivan Korneievich
 Orlov, G. M.
 Zhavarankov, Vasilii
 Kovalev, Lt. Gen. Ivan Vladi-
 mirovich
 Malyshev, Vyacheslav Aleksan-
 drovich

The chairman of the State Bank is Yakov Ilyich Golev.

For contracts relating to the development or introduction of public utilities, such as gas, electricity, reservoirs, streetcar systems, and so on, it is necessary also to contact the authorities in the respective communities that will profit by the contract. The communal authorities need not be contacted, however, until negotiations are begun in Moscow or New York, or in both places simultaneously.

While literature, advertising, samples, mail proposals, and other long-range methods all play their part in promoting export trade, they cannot take the place of direct contact. Direct contact is preferable also for certain purchases.

Appointments should preferably be made in advance. Owing to the time that may elapse in arranging the appointments abroad, one should not hesitate to make them on the spot provided Amtorg agrees to notify the proper authorities of the intended arrival of the respective representatives. The American Embassy in Moscow also can be helpful in making appointments. And, as stated in Chapter II, the representatives must be officials able to discuss all matters relating to the commodities involved and be prepared to sign agreements.

Amtorg and the import or export combines, when called on, will assist businessmen planning to travel in the U.S.S.R. in order that they may make the proper contacts. Additional information may be obtained in Moscow from the American Embassy or the All-Union Chamber of Commerce, in the United States from the State Department or the Department of Commerce, and also from the American-Russian Chamber of Commerce or the National Foreign Trade Council in New York.



4

What to Expect

THE INTERVIEW

Unless Amtorg initiates contact with a firm, it is essential that the first interview be arranged by appointment through correspondence. If one tries to make an appointment by telephone, or calls on Amtorg without a previous appointment, a good deal of time may be wasted. The employees at Amtorg, and most certainly in the combines in Moscow and elsewhere in the Soviet Union, are Russian. One cannot expect the receptionist to be acquainted with the English names of all types of products. There have been instances when representatives, who had no appointment or who did not make the nature of their products clear, were referred to several persons interested in goods of an entirely different sort.

Amtorg likes to have time to check the demand for the product and other facts to make the conversation intelligent to both parties. In writing for an appointment, therefore, it is necessary to give a brief description of one's product. If a reply is not received in a reasonable length of time, it is advisable to write again referring to previous correspondence. A telephone call or telegram is sometimes helpful as a reminder.

Should Amtorg's reply be, "We have no instructions from Moscow to buy your product," there is no alternative but to

ask Amtorg to write Moscow or to do so directly and, if possible, to go there.

What a firm may expect during the interview depends upon several factors: the extent of the need for the particular product or the Soviet Union's desire to sell a certain commodity; how much competition there is for the order; the type of representative, as outlined in Chapter 2; whether the representative is ready to deal on terms the Soviet Union is accustomed to grant.

If an interest is shown in one's product, a good motto is: "Goods well presented are half sold." When the Marion Steam Shovel Company sent L. E. Schmeltzer to Moscow, with the title of production manager of the company, he not only spoke Russian, was prepared to furnish weights and measures in Russian terms, and had the qualities of a successful representative, but he showed motion pictures of excavator production from the first stages to final assembly. He was successful in obtaining orders on satisfactory terms.

Another fact to keep in mind is that the Russians have an instinctive desire to arrive at the best possible bargain. At the conference table the Russians will begin by discussing a number of details. "They can outtalk anyone over details," says an American executive. Then arguments will commence in order to obtain the best possible terms. At this time, in the words of a businessman with wide Russian experience, "You can have a most terrific controversy with them over terms, credits, or other conditions until both buyers and sellers are red in the face and almost ready to get at each other's throat. As soon as the Russians are determined they cannot accomplish any more, and further discussions are useless, the Russians get up and offer to shake hands and are ready to, and sometimes do, kiss the Americans, in Rus-

sian style, on both cheeks. Just in an instant the whole atmosphere changes."

Assuming successful interviews and conferences, whether for a sale or a purchase, it must be remembered that the Russians believe in written contracts. It is best, therefore, to know in advance the type of agreement you will be willing to sign, the concessions which may be made and which may be expected from the Russians. To aid the American businessman in this phase of the transaction, the following section is devoted to types of agreements, or contracts.

TYPES OF AGREEMENTS

Some knowledge of agreements, or contracts, signed up to 1947 should prove valuable because the Soviet Union has consistently followed definite patterns of trade. Only the means for carrying out these patterns may have been modified and one or another type of contract stressed during various periods. The Soviet Union permitted little information about these contracts to leak out after 1930. The supplementary data obtained through personal contacts about contracts signed since then bear out the importance of the information made available in periodicals of various countries over a decade and a half ago.

The types of contracts granted to foreign concerns by the U.S.S.R. may be classified as follows:

Agency Contracts—exclusive agency contracts with private firms for the sale of Russian products.

Consignment Agreements

Demonstration Agreements

Leasing Contracts

Loans or Advances for Special Purposes

Mixed companies for production or sale of products for domestic or foreign trade.

Operating Concessions—production, manufacturing, public utilities, construction.

Purchase and Sales Agreements

Technical-Aid Contracts—plans, patents, setting up of plants, production aids, foreign specialists, and so on.

Of these types of contracts, the ones which will play the greatest part in the forthcoming years in the Soviet Union's foreign trade are purchase, sales, consignment, demonstration, technical-aid, and agency contracts with private companies for the sale of certain Russian products. Although mixed companies and operating concessions for mining and manufacturing are considered passé, it is possible that public utility and construction concessions may be granted.

PURCHASE AND SALES AGREEMENTS

For sales to the Soviet Union, large corporations in the United States use their standard form of agreement. If the purchase is for equipment or machinery, provision is usually made for sending technicians to help set up the commodity and to show how to operate it. Information regarding provision for technicians is contained under "Technical-Aid Contracts," pages 95 and 96.

In preparing either a purchase or a sales agreement, it is important to describe the products fully, clearly and specifically, to indicate the form of packing, and clarify all conditions involved in the purchase or sale. Since sales to and purchases from the Soviet Union usually involve large quantities of goods, and since litigation is unpleasant and takes a long time, the importance of detailed specifications of products and packing, of terms of payment, and of dates of delivery cannot be overemphasized. The dates of delivery are significant because the Soviet Union usually adds a clause in purchase agreements which provides for a penalty of $\frac{1}{2}$ of 1 per cent per week for late deliveries.

The Germans studied the qualities of products different

areas in the Soviet Union could supply, and specified in their purchase agreements the areas that were to supply the goods. With respect to caviar, which we also buy, they found that various types of black and red caviar come from fish which spawn in rivers as well as in salt water. The brands Beluga, Stör, Sevruga, and Schip are from fish which spawn in rivers. There is a black caviar from the species of fish called "acipenser" which spawns in salt water. The tchistiakovaia fish gives forth the black caviar, Stör, but the same fish gives forth a red caviar when it spawns in the area of Astrakhan and in the Persian River. The brand name when the red caviar of the tchistiakovaia fish is from Astrakhan is "Tarama" and from the Persian River it is "Gallagan." In the United States we have purchased mainly Beluga and Stör brands, preserved in kernel form, packed fresh, with salt added as a preservative.

The Germans went into detail about the nature of the packing. For example, they specified that eggs must be sorted according to size, packed in excelsior which must be dry, springy, colorless, clean, and without acid. The excelsior had to come from spruce or fir wood, and must be at the bottom, top and sides and between the individual rows to prevent breakage. The purpose of the excelsior is to absorb moisture. They also specified that the eggs must not be subject to heat, frost, dampness, or dirt. All cases had to bear the registration number of the manufacturer, the classification number of the case in accordance with export documents, the brand of the exporter, and the gross and net weights according to the metric system.

CONSIGNMENT AGREEMENTS

If the annual Soviet plan of purchases (Gosplan) does not provide for the purchase of certain items, the consignment

agreement is a way of getting one's products sold in the Soviet Union.

A consignment agreement, like a purchase or sales agreement, is negotiated with Amtorg in New York or with the proper Russian combine (importing or exporting corporation) in Moscow. The consignor grants the combine a credit for a definite period equal to the invoice value of the goods consigned plus a certain percentage, frequently 10 per cent, for the cost of the credit and management expenses. The invoice should also cover the transport costs and insurance to the Russian border, since it is required that these charges be paid by the shipper. The transport costs and insurance from the border to the destinations, the warehouse charges and customs duties, as well as the charges for the return of the unsold goods, are taken care of by the Russian combine. The management expenses allowed in the invoice are for the maintenance of a representative in the Soviet Union for the period the goods are there. It is not excessive to allow \$15 a day for the living costs of the representative.

Until the goods are paid for or returned, title remains in the consignor but he has no control over the sale of the goods. The goods are handled in the Soviet Union and disposed of by the government trading organizations. No guarantee is given that the goods will be sold. The agreement, however, specifies the sales prices in the various districts of the U.S.S.R. And the company representative keeps tabs on the progress of sales as best he can.

Payment for the goods sold is made either after the goods are disposed of or within a specified time, whichever is earlier. The specified time varies between two and six months. The Germans more frequently granted only sixty days, the British six months. Goods not sold within the

specified time may be returned to the consignor, or the contract may be extended at his request.

Some items sold on consignment were machines, tools of all sorts, agricultural implements, optical instruments, dye-stuffs, and a few consumer goods. British and German firms profited well from such agreements. Firms which had such agreements report that the Russians were scrupulously honest in their dealings. Americans, however, were reluctant to enter into consignment arrangements. The Armstrong Cork Company of Lancaster, Pennsylvania, refused such an agreement.

Another type of contract Americans have not yet entered into is the demonstration agreement.

DEMONSTRATION AGREEMENTS

This agreement provides for demonstration depots with ample supplies on hand for immediate delivery. The provisions in the agreement are similar to those of the consignment agreement.

The Union of German Machine Tool Manufacturers' Exports Company and the Soviet Russian Stock Company for Nationalization of Enterprises in Heavy Industry, "Orga-Metall," in Moscow, signed a demonstration agreement. Since Orga-Metall was consulted by all Soviet Russian metal-working enterprises, it could exercise influence with respect to the machines and tools advisable to purchase. This agreement worked out satisfactorily for the German exporters.

LEASING CONTRACTS

International Business Machines Corporation, New York, leased calculating machines to the Soviet Union. Its usual form contract was used. Provision was made for sending

American engineers to train Russians in the operation and maintenance of the machines.

LOANS AND ADVANCES

Private loans were welcome in the early years of the Soviet regime when capital was required to get industries started. Sidney Hillman organized the Russian-American Industrial Corporation in 1921, sold shares to Americans at \$10 each, and invested \$1 million of those funds with the syndicate controlling the Moscow, Leningrad, Kazan, and Nizhni clothing manufacturing trusts. The loan was made for three years, at 8 per cent interest per annum, and guaranteed by the state.

Today the Soviet government prefers loans and credits from governments rather than from private individuals and firms. The Soviet government would have no objection to the floating of a bond issue as was done by Czechoslovakia in 1935, and in the United States in 1927 and 1932. Since such issues are not possible today in view of the Johnson Act, the Soviet Union has been approaching private firms for credits. Because American firms are not certain about the outcome of the present anti-Soviet attitude, they are deferring the granting of credits. The subject of credits is discussed more fully in Chapter 5.

Loans in the form of long-term credits were part of a number of agreements. The Farquhar engineering contract (American) for technical aid granted the Soviet government a gross credit of \$40 million for six years to purchase machinery and new modern equipment necessary for the rebuilding, modernizing, and re-equipping of the Makeyeff Steel Works. This was not a credit like one made by a manufacturing concern to cover goods purchased from it. The credit granted by the Farquhar group was more in the

nature of a loan, for the machinery might be purchased in Germany, the United States, England, or France, as long as it was of the quality and design corresponding to the best American standards.

The consignment agreement, drawn as a credit, is a form of financial advance. Financial advances were frequently made by mixed companies. At various times the Russo-British Grain Export Company, Ltd., a British company in which 50 per cent of the stock was controlled by Russian interests—referred to as a mixed company—made loans to the Soviet Union for the purpose of financing the grain crops. Essexport, a German-Russian mixed company, made advances on shipments of eggs. Other mixed companies granted advances on goods to be shipped by the Soviet Union.

The agreements relating to advances provide that repayment of moneys commence from the time the first consignment of goods is loaded for export. The company selling the goods may not dispose of them below market prices. If goods are sold below the prevailing market prices, the Soviet government reserves the right to cancel the contract. Accounts are settled at the end of the financial year. The interest rate on the advance is the prevailing one in the particular country.

MIXED COMPANIES

A mixed company is a partnership between the Soviet Union and a foreign firm or foreign government in which the Soviet Union retains a 50 per cent interest. In this partnership the Soviet Union is represented by one of the state controlled economic or trading enterprises. The company may be organized as a limited dividend corporation, a stock company, or a corporation. Whichever it is, it is re-

quired to prepare annual plans and maintain definite import and export quotas as provided in the contract.

Unlike the general nature of the law that forms the basis of operating concessions and technical-aid contracts, Soviet law sets down the mutual rights of the partners in a mixed company, the manner of execution of Soviet foreign trade, and other details.

Most agreements were for four or five years; there were a few for two or three years, and some for as many as ten years. The Soviet Union retains the right, after a specified time, to purchase the business on an equitable basis.

Most of the mixed companies were agencies for the sale of Russian products. One of the largest, the Russo-British Grain Export Company, acted as sole agent in the United Kingdom and Ireland for the sale of Russian grains, seeds, oilcakes, vegetable oils, and so on. Other British partnerships were the Russian Wood Agency, Ltd., for the sale of Russian timber products, and Divinoless, Ltd., for the sale of Russian timber. A Norwegian-Russian partnership was Russnorvegless, Ltd., for importing Russian timber materials into Norway. There were also several German mixed companies, like Essexport for importing poultry and eggs into Germany. And there was the Soviet-Polish Trading Company for handling a number of products.

A company doing both exporting and importing was the West-Osteuropäische Warenaustausch, A.G. (the West-East European Goods Exchange Stock Company), which sold tools, educational supplies, dyes, and dry goods to the Soviet Union, and purchased eggs, poultry, down, feathers, horsehair, sausage casings, and metals from the Soviet Union. Another German-Russian trading company was Russger-torg.

There were also some partnerships for light industry,

financial investment, for the performance of commercial and administrative operations, and for a few concession agreements for construction, agriculture, and fishing.

An American-Russian mixed company was Ragaz (Russian-American Gas Company), jointly owned by the International Oxygen Company of Newark, New Jersey, and the Soviet Metal Syndicate. This company constructed several oxygen plants in Moscow, Rostov-on-Don, and Sverdlovsk. It operated on lease oxygen and acetylene plants at Baku. It also manufactured acetylene, welding and cutting apparatus, and various welded products, such as steel drums. During the year 1930 the business of the company totaled \$1,293,814.

On the same basis was organized the Russian-Canadian-American Passenger Agency, with headquarters in Moscow and branches throughout Russia. There were, however, no American investments or interests in this firm. The shareholders, in addition to the Soviet government, were: Canadian Pacific Railways, Canadian Pacific Steamships, Ltd., Cunard, Anchor, Anchor-Donaldson, Holland-America Lines, and the Royal Mail Steam Packet Company and its affiliates. The Board of Directors consisted of three British and three Russian representatives.

Sovfracht, the Soviet Freight Company, operated in some countries as a joint-stock company. In Germany it was called Die Gesellschaft für die Befrachtung von Seeschiffen, mbH Sovfracht (company for the chartering of sea vessels, Sovfracht, Ltd.), in Norway, A/S Sovfracht, and in London, Anglo-Soviet Shipping Company.

As in tsarist times, the Soviet government did not permit the free transit of goods to Iran over its territory. To collect the tariffs, a partnership was at first organized with the Deutsch-Russische Transit und Handelsverkehrsgesellschaft (The German-Russian Transit and Trading Company), Russ-

transit. Later it was transferred to the German Orientbank and the Julius Berger Company.

Other German-Russian companies were the Wirtschaftsverband der Deutschen Hochseefischereien (Economic Union of German High Sea Fisheries) in Bremen; the Deutsch-Russische Luftverkehrs, GmbH, (German-Russian Air Transport, Limited Dividend Corporation), for airplane services between Germany and Russia; P. Cossel & Company, for construction of dwellings; Aktiengesellschaft für Bauausführungen (Joint Stock Company for Construction); the Deutsch-Russische Staatbau, A.G. (German-Russian State Construction Company), for the setting up of agricultural settlements; and the Manytsch-Krupp concession for developing millions of acres for agricultural purposes.

Although the Soviet Union liquidated or purchased their interests in mixed companies before World War II, the Russian Wood Agency, Ltd., Melbourne House, Aldwych, was functioning up to the war period.

While partnerships worked out satisfactorily in many instances, most firms prefer exclusive agency contracts.

AGENCY AGREEMENTS

Agency agreements may be of two types: (1) the exclusive representation granted an American firm for the sale of Russian products in the United States; (2) the exclusive representation for the sale of Russian products in certain foreign countries. The latter type of contract was especially profitable to American oil interests for the distribution of Soviet petroleum products in the Middle or Far East.

Certain quantities or the whole stock of a commodity or commodities might be involved in an agency contract at a flat fee, or the distribution might be granted on a commission basis.

Standard Oil of New York and the Vacuum Oil Company, later combined into Socony-Vacuum Oil Company, signed a number of agency contracts after 1927 for the distribution of Russian gasoline and/or other petroleum products in foreign lands. A 1933 agreement provided for distribution of 500,000 barrels of Russian gasoline and kerosene in Egypt that year. For a time the Hugo Stinnes Company of Germany distributed Russian gasoline, lubricating oils, and so on, in Germany, Czechoslovakia, and Scandinavian countries. Later Derop, a Russian company, took over the distribution in Germany. The Anglo-American Company, representing the most important English and American firms operating in the British oil market, as well as the Dutch Shell interests signed contracts with the Russian Naphtha Syndicate to purchase on favorable terms large quantities of Caucasian oil products with the exception of gasoline. In return for these contracts, the Soviet corporation in England, Russian Oil Products, Ltd. (ROP) was allowed a share in the British gasoline market.

ROP, frequently referred to as a mixed company, is a Soviet Russian corporation, organized in accordance with British laws in 1924, and still operating today as the sole agent for the Naphtha Syndicate in the United Kingdom and Ireland. It maintains a network of distributing centers in its territory. It has branches in various British Empire countries. In South Africa it operates as the African-Russian Oil Products Company, in Australia as the Australian Oil Products Company and likewise in New Zealand.

At one time the Socony-Vacuum Oil Company of New York obtained from ROP the rights to sell kerosene in India. For the sale of other oil products in India ROP contracted with the Western Indian Oil Distributing Company.

In addition to the agency contracts for the distribution

of petroleum products, contracts were signed with British firms for the distribution of lumber and timber products, food products, platinum, bristles and horsehair. Among the firms holding such agreements were the Russian Bristle Export, Ltd., for bristles and horsehair, the Mond Nickel Company for platinum, and the following for lumber and timber products: Russhollandless, Ltd., the White Sea Timber Trust, the Central Softwood Buying Corporation, Ltd., Timber Distributors, Ltd. These firms co-operated with the British-Russian partnerships, the Russian Wood Agency, Ltd., and Divinoless, Ltd., referred to under mixed companies. Food products as butter, eggs, poultry and game were distributed for Russia by the Union Cold Storage Company of England on a commission basis. At one time this company granted the Soviet Union an advance of over \$1,500,000.

Brandon Films, Incorporated, New York City, has for some years had an exclusive agency from the Soviet Union for the distribution of 16-millimeter films in the United States.

The most successful agencies are the ones for the distribution of Soviet products. The company desiring such a contract must be well established and have ample funds at its command. It can use its strategic position as an agent for the Soviet Union by associating itself with firms which sell to the U.S.S.R.

OPERATING CONCESSIONS

An operating concession is an agreement between the Soviet Union and a foreign firm to mine or produce commodities or install and operate services in the Soviet Union.

Between 1917 and 1928 operating concessions were granted for the development of trade, agriculture—raising of cotton, sugar, beets, grains, and other products, timber, mining,

various industries, and communications. After 1928, in accordance with the decree of September 15 of that year, concessions were granted for the manufacture of iron and steel, metallurgical and agricultural machinery, paper, cellulose, automobiles, artificial silk and tanning extract, for exploitation of natural resources, timber, oil, coal, iron, manganese, nonferrous metals, and so on. Several early contracts also involved exploitation of natural resources, especially gold and platinum. Other concessions were granted for the installation and operation of public utilities, for construction and operation of factories, houses, waterways, harbors, railways, storage warehouses, large refrigerating systems, and so on.

According to representatives of the Soviet Union in the United States, operating concessions for production or mining were introduced for purposes of credit, engineering, and managerial aid, which the Soviet Union could not obtain in any other way during its early history. It is claimed now that Soviet industrial organization and distribution have been leading toward greater efficiency and improvement, the caliber of the men in charge of the work has been appreciably raised: they are better educated in liberal arts as well as in technical training. Since 1946, the U.S.S.R. has been sending engineers and managers to other countries in accordance with agreements signed with the Eastern European and Balkan governments.

It would appear, however, that construction, public utility, and communication concessions might be granted because of the great need for these that exists in the Soviet Union today. These types of agreements frequently involve less need for the export of capital, which was one of the obstacles in the fulfillment of other types of concessions.

In the early thirties, when the Soviet Union was trying to liquidate private investments in the country because of the

forthcoming war, the government continued to urge foreigners to invest in public-utility undertakings. That many proposals offered have not been taken up is borne out by reports from Russians who spent the recent war years in Siberia. With the vast program of Soviet construction and reconstruction, the government has not been able to install the required number of public-utility systems.

According to Soviet architects and engineers, the U.S.S.R. proposes to build 25 million dwelling units in the next decade. Not only will machines and plants for production of materials and equipment be purchased in large quantities in the United States, but we may be called upon to run those plants for a time in order to assure efficient management, even though the Soviet Union has made great progress in this field.

The Soviet Union today is showing an interest in prefabricated housing, and purchased thousands of such houses in Finland in 1946 and 1947. Yet the production of these has reached its highest efficiency in the United States.

For the above reasons and because some provisions of the operating concession may also apply to technical-aid and other agreements which the Soviet Union will make with private industry, the considerations involved in an operating concession are presented.

By way of introduction, it may be of interest to American businessmen to know that concessions for large enterprises were granted by the tsarist regime. The first inland concession was given to Stroganoff in 1558 by Tsar Ivan the Terrible for the purpose of colonization and for the mining of salt. The first foreign concession was granted by the same ruler in 1569 to an English company for privileges of import and export and transit trade to the East, duty free, and for mining and the training of Russian workers. Concessions

expanded materially under Peter the Great in the eighteenth century. Peter's first concession was for munitions production (1702) and was followed by a concession for copper works (1720). In the nineteenth century railway concessions began to be granted. The first was the railway from St. Petersburg to Tsarskoe Selo, the summer home of the Tsar (changed by the U.S.S.R. to Detskoe Selo, the summer home for children), with a branch to Pavlovsk. Imports were permitted duty free for concessionaires. It is also interesting to note that concessionaires had land-use rights, but not ownership of land, the system used by the Soviet Union.

By the beginning of World War I, not only were many industries under the control of foreigners, but many Russian enterprises were managed by foreigners, mainly Germans, and in some instances by British subjects. The cement, ball-bearing, agricultural, and other industries were in foreigners' hands. Among American firms, International Harvester was gaining a foothold. British and German enterprises had started a large proportion of the production of less complicated agricultural machinery and implements. Those factories were located in south and central Russia.

Electric motors and dynamos were supplied largely by home factories run by German companies. A great deal was also imported, such as spare parts, and assembled in Russia.

The Tsars granted construction concessions for grain elevators and cold-storage warehouses. They had plans for introducing advanced methods for the exploitation of mineral, forest, and fishery resources; the yield of gold from Siberia was to be doubled.

It was, therefore, no surprise to economists acquainted with Russian policy that the Soviet Union, upon the close of the civil wars and Allied intervention, 1918 to 1920, should decide to encourage foreign concessions. Other reasons for

this policy were the new Russia's need for engineers, managers, skilled workers, finance, and credit.

The legal foundation for concessions by the Soviet Union is the decree of November 23, 1920, followed by the one of July 7, 1921, to encourage small enterprises employing ten to twenty workers. Both laws make the same guarantees and have operated successfully for foreigners even after the liquidation of the New Economic Policy. They provide:

1. That the property invested by the concessionaire in an undertaking within the territory of the Soviet Union shall not be subject to nationalization, confiscation or requisition.

2. That the concessionaire will have a definite profit.

3. That the labor hired in the Soviet Union is subject to the provisions of the labor code unless some special agreement changes these conditions.

4. That no changes in the terms of the concession agreement will be made by order or decree of the Soviet government without the consent of the concessionaire.

5. That the concessionaire may import technical equipment from abroad.

These regulations are general and do not cover all the important matters that have to be taken into consideration in the agreement, such as tariffs, the export of goods, of money in dollars or other foreign currency, of profits, the settlement of disputes by arbitration, and many other details. The solution of these and other matters as they developed are contained in the following summary of the provisions of an operating concession and in the supplementary comments:

1. *Equipment.* The undertaking must be equipped with machinery of the newest design and highest technical efficiency.

2. *Imports.* Foreign purchase of the necessary equipment is provided for. The value of the imports have to be stated in advance in order to determine the fixed capital invested for purposes of credit, amortization, taxation, and so on.

The concessionaire is expected to utilize raw materials and other needs produced in the U.S.S.R., provided the quality and quantity required is obtainable therein. Only when this is not possible, is he permitted to import the necessary requirements from abroad, according to amounts and specifications confirmed each year.

The concessionaire may agree to produce certain requirements either partly or wholly within the Soviet Union, in factories which he himself might equip and operate.

3. *Import Duties and License Fees.* Usually the essential equipment for the enterprise forming the concession may be imported from abroad duty free and free from license fees. If imports are not license free, the charge is 2 per cent of the value of the goods, payable, as a rule, in the country of purchase before shipment. In the United States, the fees are paid to Amtorg, which grants an import certificate to the exporter. It is best to have the agreement provide that license fees as well as all other customs fees are exempted.

4. *Production.* Production must commence on a definite date, and the agreement usually fixes an obligatory minimum output, based on the productive capacity of the enterprise. The quality of the product must not be worse than the best of its kind produced abroad.

The state must be assured that the property handed over for productive purposes will yield a reasonable and definite amount. The output must be taken into account by the State Planning Organization (Gosplan) for the annual plan of national economy, and must form a basis for increases in production. The concessionaire must agree to increase his production annually.

In agreements for mining concessions, the concessionaire may be under obligation to carry out a definite amount of prospecting before the official assignment of the operating area. In such cases, the output and royalties are fixed after the results of the prospecting are known.

5. *Penalties.* If the concessionaire does not fulfill the equipment and setting up of the works schedule, if he does not fulfill the production plan, nor pay the taxes as provided, the state may either levy a penalty for each default or it may suggest the closing down of the concession on a mutually agreeable basis.

The action of the state depends upon the importance and extent of the default.

6. *Transport Charges.* The concessionaire is entitled to enjoy the same reduced railway freight rates for the transportation of his goods as apply to state controlled enterprises of similar nature.

7. *Invested Capital.* The minimum amount of invested capital must be stated because the government undertakes to grant the concessionaire the right to export sums of money necessary for purchases abroad, for profits, for amortization of credit, and so on. It is also important for tax purposes.

8. *Credit.* The foreign entrepreneur must bind himself to bring in ten times the basic capital, such as the working capital, in the form of goods credit. Financial credit may be obtained either from the banks of the U.S.S.R. or from foreign banks.

9. *Marketing and Selling Prices.* In special cases the agreement stipulates that the government has the right of priority to purchase all or a part of the concessionaire's output. In some instances the Soviet government was prepared to come to an agreement to purchase a sufficient portion of the concessionaire's output to guarantee him a fair profit on his invested capital. If the Soviet Union agrees to purchase a share or all of the product of a plant, a definite selling price must be set in advance.

During the NEP period, when private business was permitted, all or part of the products of the concessionaire's enterprise, in so far as the agreement allowed, could be freely marketed within the territory of the U.S.S.R. on the same basis as obtained for other enterprises of similar character. Some agreements also provided for permission to export a certain portion of the production. Prices for goods sold on the open market within the U.S.S.R. are set by the concessionaire.

Any production concessions in the future, if entered into, will probably provide for Soviet distribution by government agencies.

10. *Labor and Wages.* There are usually no regulations regarding labor in the agreement, it being understood that the concessionaire is to be governed by the labor code of the U.S.S.R. According to established practice, the concessionaire concludes a collective bargaining agreement with the trade union concerned. This agreement specifically fixes the scale of wages and

other terms agreed upon, and may be renewed upon expiration. The same conditions apply also to foreign personnel, with the exception of foreign technicians. The right to employ foreign workers or assistance is permitted up to a certain ratio which is decided upon in consultation with the trade union.

Labor disputes may be dealt with either by a committee of arbitration or by the courts, as agreed upon. Compulsory arbitration is not allowed after collective agreements have been concluded and the labor conditions have been fixed.

The recruitment of labor is carried out through the state labor offices or through direct negotiation, depending on the method prevailing in the Soviet Union at the time.

The basic wage rates have to be fixed in such a way that their normal and gradual increase should not exceed the increase in labor productivity per man, and they must, moreover, strictly correspond to the economic standards of the country. Generally speaking, wages in large concession enterprises are maintained on the same level as in state-controlled enterprises of a similar character, with perhaps a slightly upward tendency.

11. *Management.* The concessionaire has the right to individual administrative management without government interference. Technical alterations may be made without consultation with the government.

12. *Government Guarantees and Foreign Remittances.* As already indicated, the government by law guarantees that all the property included in the concession enterprise will not be confiscated or requisitioned; that the government does not have the right to change or cancel the agreement, unless requested by the concessionaire; that the concessionaire will have a definite profit; that he may import duty free those requirements not obtainable in the U.S.S.R. The concessionaire may effect credit and other financial operations and transactions on the basis generally obtaining. In particular instances the concessionaire may be given the right to float a loan secured by bonds or debentures.

The concessionaire has the right, under government guarantee, to remit freely his net profits abroad, amounts for amortization of capital invested, and for purchases made abroad. Upon liquidation of the concession, he is permitted to take out of the

country any invested capital or profits on deposit in the Soviet Union.

Assignment of profits in American money proved a great hardship on the Soviet government, for it reduced the amounts available for other essential imports. For this reason, the government did what it could to encourage reductions in annual valuta requirements, and might in the future be interested in concessions which do not require an undue export of dollars.

13. *Alterations in Contracts.* Changes may be made only with the consent of the concessionaire. If he finds that it is impossible to fulfill the agreement, the Soviet Union is always prepared to make arrangements to buy him out or alter the agreement in such a way as to render it more profitable. The government always maintained that it wished to afford the concessionaire a good return for his invested capital and labor.

It frequently happened that clauses of a contract were changed at the request of the concessionaire.

14. *Matters not Stipulated.* With respect to matters not stipulated, the concessionaire enjoys all the rights, and becomes subject to the rules and regulations in force in the common law of the Soviet Union.

15. *Financial Statement.* A financial statement showing totals for all types of transactions must be filed annually for purposes of determining profits and taxes.

16. *Length of Concession and Expiration.* The period a concession is to operate is based in a measure on the length of time it will take to amortize the enterprise. Profits and prices are taken into account. Long-range operations are drawn for from twenty to forty years with the right of purchase in case of war.

Upon the expiration of a concession contract, or whenever the concessionaire wishes to liquidate, or when by mutual agreement the Soviet Union decides to control the concession, a complete inventory is made to determine a settlement of accounts. The concessionaire must at this time amortize his investment, and pay up any interest due.

The buildings, equipment, and special erections on the property under concession revert free of cost to the government. In other words, the entire property is turned over to the state with the exception of liquid assets. The government, however, com-

pensates the concessionaire for all capital investment including that for which amortization was not provided by the expiration date.

17. *Arbitration.* Any disputes which may arise between the government and the concessionaire with regard to the due interpretation or fulfillment of the concession agreement, are submitted to a neutral Board of Arbitration on which both sides are equally represented. This subject is more fully discussed under the heading "Arbitration" in this chapter.

18. *Taxes.* Taxes are based on income, ground rent, social security levies, royalty or concession grant, and excess profits. In general, they are the same as for Russian state-controlled enterprises of similar character with the addition of a royalty or concession grant in some instances.

The ground-rent tax is in lieu of what one pays in capitalist countries for state and local taxes on property. It is applicable to all enterprises in the Soviet Union using immovable property. The tax for social security purposes is approximately 10 per cent. The rates vary in different industries and are specifically fixed by law. The excess profits tax is variable. In one instance, when the excess profits were around \$6 million, there was about one-third taken by the state to cover this tax.

The concession grant or royalty may be based on the gross turnover as income taxes are levied, or it may be based on excess profits. The latter method was used particularly in light industries and was arranged on a sliding scale as provided in the agreement. For the largest enterprises, the total taxes may be a fixed amount agreed upon in advance. In any event, one tax bill is issued to cover all general government and local levies including the ground rent. And the total bill is considerably less than taxes in the United States or Western Europe.

The latest income tax law, which applies to all sorts of foreign business transacted on Soviet territory, and applies to corporations and/or representatives resident in the U.S.S.R., whether the contract is for a concession, trade, consignment, demonstration, and so on, was enacted February 1, 1936 (No. 39/161). It sets the income tax at $\frac{1}{4}$ of 1 per cent of total sales, whether pertaining to the sale of commodities or the chartering of ships and whether the sale is for cash or on credit.

19. *Tax Exemptions and Other Aids.* As has been indicated, the contract may exempt customs duties and license fees, and, if the enterprise is large, it may contain a specific all-inclusive tax for all purposes. For mining and construction in particular, additional concessions have been granted.

The Council of Labor and Defense is empowered to grant a number of privileges to private enterprises employing up to one hundred workers engaged in prospecting and operating tin, lead, nickel, zinc, and aluminum ore deposits or in smelting these ores.

State and local taxes and dues of various types may be exempted with the exception of (1) contributions for social insurance; (2) the industrial tax, which is insignificant; and (3) dues and taxes provided by temporary regulations to aid local finances. The usual exemptions are the customs duties and 50 to 70 per cent reduction of the tax on timber materials consumed by the industry for its own use.

Construction Concessions.—Construction concessions were of two types: one in which the concessionaire supplies the capital on a credit basis, establishes a construction firm, does the building, and receives an agreed profit from the firm as well as interest on capital invested. The buildings, upon completion, are turned over to the government. The other method permits the concessionaire to own the property for a period of years during which he may capitalize on it to the extent that the market will permit.

The latter system was put into effect on the eve of the first Five-Year Plan, when the government was turning away from private enterprise and centralizing industry as much as possible under state control. The privilege of exploiting real estate illustrates the need for construction and the extent to which the government was ready to make concessions to foreign enterprise to stimulate it. Construction is needed more urgently today.

Under either of the above plans, foreigners could register as contractors and obtain the following privileges:

1. The same grants as state building organizations operating on a commercial basis in the U.S.S.R., to tender bids and receive contracts for the building of houses, factories, warehouses, ways of communication, equipment of ports, water works, municipal services, and other works.

2. To import, free of duty and all fees, the machinery, implements, appliances required for the work and to re-export them when the work is concluded; to import free of duty and fees any building materials which cannot be produced in the U.S.S.R., or of which there may be a shortage in the U.S.S.R., under conditions specified in the concession agreement.

3. To bring in qualified workers and a technical staff from abroad, the proportion compared with Soviet labor to be determined in an agreement with the respective union. There is no limitation to the total number of workers.

4. Exemption from every form of government tax or government charge including ground rent during the first three years from the date of completion of the houses. For the remaining period of the lease, the concessionaire is granted a rebate of half the ground rent. Leases and shares in mutual credit societies, established for the promotion of house building, are exempt from inheritance tax.

5. To contract for the building in urban as well as rural areas and to exploit the properties when completed, there being no limitation on rents charged. Newly erected private houses may be rented to tenants in whole or in part, as separate apartments, as rooms, or for commercial purposes, on terms agreed to by the lessors and tenants. Leases may be for any period and rent may be accepted either in the form of regular periodic payments or in a lump sum at the time the premises are rented.

Administrative bodies are prohibited from naming renters for these premises. No restrictions are placed on the amount of floor space the occupiers of newly built private houses may occupy.

6. The concessionaire is free to plan as he sees fit the area granted him for building purposes.

7. One-fourth the cubic space of the building, excluding

service accommodations, may be utilized for restaurants, shops, offices, and so on.

8. To construct public services, as electrical generating stations, central heating systems, steam laundries, and so on, for the purpose of serving groups of persons or entire communities; to construct communal buildings and hospitals and other public buildings.

9. To construct and operate other municipal public utilities in accordance with the terms of the agreement.

10. To construct and organize subsidiary enterprises for the production of materials, and so on, necessary for the carrying out of the constructional work. Such materials may be sold within the Soviet Union under conditions provided for in the concession agreement.

11. A profit of not less than 20 per cent on the invested capital is guaranteed.

12. The land granted to private builders is leased for a period not exceeding eighty years for brick and concrete structures, including those of mixed materials, and not exceeding 60 years for wooden dwellings.

13. Builders may dispose of property through sale or lease, or may mortgage it upon the completion of at least 30 per cent of the construction, as stated in the concession agreement.

14. Builders may dispose of property through sale or lease, or may mortgage it after the erection of the project is completed. If the municipality which granted the lease to the concessionaire approves, the property may be mortgaged when at least 30 per cent of the construction is completed. This provision must be very precise in the agreement.

15. In accordance with another decree the concessionaire may establish private mutual credit societies for the purpose of financing building operations. (Shares in mutual credit societies are exempt from inheritance tax.)

While the above aids were established primarily for construction enterprises, they were used also for public utility and communication concessions as is indicated by item 1 above.

Just how many of the public utility concessions for which

the Soviet Union asked bids for six cities—Moscow, Leningrad, Ivanovo-Voznesensk, Sverdlovsk, Saratov, and Baku—were taken up has not been disclosed. The same is true of the opportunities for municipal concessions in a number of towns in Siberia, which were advertised in the *British-Russian Gazette* of July, 1930. These opportunities included installation of transport, local railways, streetcar lines, water supply, canalization, gasworks, electric stations, sewerage systems, slaughterhouses, refrigerating plants, and subsidiary enterprises.

From available information, most of the dwelling-house construction contracts were held by Germans, the United States playing a part in erecting workmen's dwellings as part of a contract which was another form of concession or technical-aid agreement. For example, the Freyn engineering agreement of 1930 for the construction of the Kutznetsk Steel Plant in Siberia required the building of a workers' town. The Ford (technical-aid) contract and the Harriman (mining-production) concession also provided for the construction of workers' housing. American construction contracts were more usually for the erection of industrial plants.

Among the German firms for dwelling-house construction, in which Russians retained a 50 per cent interest, already referred to under "mixed companies," were Aktiengesellschaft für Bauausführungen (Joint Stock Company for Construction) and P. Cossell & Company, also referred to as Russgerstroi. The Deutsch-Russische Stadtbau, A.G. (German-Russian State Construction Stock Company), also referred to as Drussag, and the F. Krupp-Manytsch Concession started out as private undertakings and later became partnerships when the latter changed its name to Manytsch-Krupp.

A large Japanese timber concession required the construction of factories for producing up-to-date building materials.

The Moscow Industrial Syndicate (MIS), which constructed all types of buildings including dwellings, also produced salts of ammonia and liquid ammonia.

Production concessions with or without construction privileges were entered into mainly by the Germans and the British. There were a few American production and mining concessions. These included the contracts between the Soviet Union and W. Averell Harriman and associates, the Aluminum Corporation of America, the American Asbestos Company, the Hammond Lead Products Company for production of pencils, the Percival Farquhar contract for rebuilding the steel and iron industries, and others.

Thomas Campbell of Hardin, Montana, one of our largest wheatgrowers, at one time had a concession for the cultivation of 10 million acres of wheat. It was combined with a purchase agreement for supplying \$100 million worth of American planting and harvesting machinery.

In some cases the contracts were terminated because the American firm so desired or because the Russians preferred to buy up the interests. The former applied to the W. Averell Harriman concession, the latter to the Hammond Lead Products Company, and to others existing up to the early thirties. Since the facts of the Harriman concession have not been made public in the United States, a summary of the agreement and the manner of its conclusion is contained in Appendix 3.

Among German agricultural and production concessions were: the Deutsch-Russische Agrar A.G. (German-Russian Agricultural Stock Company, known as Druag) for the development of 65 million acres; the Gesellschaft für Wirtschaftliche Beziehungen mit den Osten (Company for Economic Relations with the East) for agricultural purposes; Berger & Wirth of Leipzig for manufacturing dyes, as this firm had

done before World War I; Leowerke of Dresden for the manufacture of tooth paste. The contract with F. Krupp-Manytsch for agricultural dwellings also provided for the cultivation of 67,520,000 acres in the Northern Caucasus, and the raising of cattle.

At one time there was a French "mixed" company for the production of metric weights and measures, Sovmetr. Another French firm manufactured aerophoto films, celluloid products, and so on.

The SKF Ball Bearing Company operated as a Swedish firm. Its experience was unusual. Because it did not close shop as did other factories when the Bolshevik party took over, none of its properties were confiscated and it was allowed to operate until the Soviet government purchased the factory in the early thirties.

British firms were mainly interested in mining and fishing concessions. There were three major mining concessions and two minor ones—Pri-Amur Mines, Ltd., Tetiuhe Mining Company, Ltd., and Lena Goldfields Mining Company represented the major concessions. The minor ones were the Ayan Company, Ltd., and the Russian Mining Corporation. The Tetiuhe concessions was taken over from Brenner & Company, which signed an agreement in 1924 for thirty-six years. It provided for the prospecting and mining of silver, lead, copper, zinc and other metals. A. G. Marshall of the Tetiuhe Mining Company once said:

. . . the company's relationship with the Russian government has always been of a most satisfactory nature. We have had no trouble whatever with them; in fact, we have found the central labor institutions in Moscow most useful to us in connection with any small disputes on the mine.

Information about the Lena Goldfields Mining Company, Ltd., is contained in Appendix 3.

A concession was granted a British firm to fish in the Murmansk area. The Hudson's Bay Company had a concession for fur trade on the Kamchatka Peninsula. It had an absolute monopoly for the trapping of fur-bearing animals and their sale from the southern end of the peninsula to the East Cape in the Bering Straits. For this concession it paid a 10 per cent royalty based on the gross value of fur sales, and from net profits an excess profits tax of 20 per cent.

Fishing and forestry concessions were also held by German and Japanese firms. The contract with the *Wirtschaftsverband der Deutschen Hochseefischereien* (Union of German High Sea Fisheries) of Bremen permitted the catching of fish on the north coast of the U.S.S.R. The German firm, Mologa, A.G., had a contract for exploiting a forest area of about 2,500,000 acres in the Mologa District along a tributary of the Volga.

Japanese firms obtained concessions as early as 1922 when Shidehara, Japanese ambassador to the United States, assured Russia that Japan stood for noninterference and for equal rights of all states. Additional concessions were granted after the recognition of Japan in 1925. The Japanese concessions were mainly for fishery, forestry, gold, coal, and oil. The coal and oil concessions were in Northern Sakhalin, Japan then being in possession of Southern Sakhalin, which has since reverted to the Russians. Rights to exploit Northern Sakhalin coal and oil were continued until shortly before the Soviet Union entered the war.

In preference to operating concessions, Americans preferred technical-aid contracts. Some differences between the two types of agreements are: the former may require payment of royalties to the Soviet government, the latter by the Soviet government to the foreign contractor; the former usually requires financial investment over a long period of

time, while the latter is of short duration and involves less credit and less responsibility; the former entails production on one's own account, the latter on the account of the Soviet Union.

TECHNICAL-AID CONTRACTS

A technical-aid contract is an agreement between the Soviet Union and a foreign firm for any type of service which will aid production in the U.S.S.R. in accordance with the latest and most modern achievements of industrial science. To fulfill such an agreement may involve sales, credit, construction, the setting up and equipping of plants, production, patents, plans, management, instruction, and/or consultative services. The technical-aid contract may involve all these aids or any one of them, or a combination of several.

If a foreign firm enters into an agreement for the construction of a plant, for the equipment of the plant for the furnishing of technicians, including or excluding production, or for production alone, it places at the disposal of the Soviet Union not only all patents in existence at the date of the contract, and all technical and financial calculations relating thereto, together with the fullest information about the manufacture or production of the machinery or products which the patents cover, but also all patents which may be acquired by the said firm in the Soviet Union or elsewhere during the whole term of the agreement. It furnishes detailed blueprints, and, if they represent machinery, they must illustrate the machinery from various angles. The whole of the foreign firm's special knowledge and practical experience, in both manufacture and production, is placed at the service of the Soviet organization concerned.

The agreement must provide that all patents, formulas, financial and technical calculations which become the prop-

erty of the Soviet government may be handed over by the U.S.S.R. at its discretion to third parties for their exploitation.

The firm must agree to a financial guarantee that the contract will be executed as drawn, and agrees to pay certain penalties if the contract is not lived up to. Penalties may be avoided by applying the cancellation privileges which the contract offers. No firm has had any disagreeable experiences with respect to these provisions.

Payment by the Soviet Union for the fulfillment of a technical-aid contract may be in one cash sum in advance, or more frequently a partial payment is made, followed by regular percentage installments as agreed upon. A number of German agreements were signed which granted an interest in the goods produced, usually in the form of a percentage of the value of the production. This method proved most favorable for the Soviet Union.

The Soviet Union granted at least fifteen contracts to foreigners for advice and assistance on a royalty basis.

Like the operating concession, the technical-aid contract should specify the type of currency in which payments will be made and permission to take moneys out of the country. If credits are involved, the dates of payment and conditions thereof must be stated. If it is necessary to import machinery, whether for sale or for loan, provision should be made to import it free of duty and license fee, and if on loan, to export it without duty.

As a rule, the technical-aid contract is concluded for a comparatively short period, that is, from three to ten years. The period is determined on the basis of the time it will take to complete the work and to train Soviet engineers to become thoroughly acquainted with the enterprise.

Technical-aid contracts, like all others, provide for the

arbitration of disputes arising in connection with the due fulfillment, execution, and interpretation of the agreement. The arbitration part of a technical-aid contract is usually a separate agreement.

A firm which has not been approached by a Soviet government agency desirous of a technical-aid contract should investigate the needs of the Soviet Union along the lines it is able to help develop Soviet industries, and should present a plan of assistance to Amtorg and to the respective enterprise in Moscow concerned in the development offered. If a new factory is not required, the plan may cover the reorganization of existing factories. The offer may be all-inclusive or it may merely be for advice on the starting of new factories or for the installation of new branches, for a license to permit the use of certain patents or for the sale of patents, or for the training of personnel or furnishing technicians.

Many of the sales agreements as well as technical-aid and operating concessions require the sending of American technicians or resident representatives to the Soviet Union. To facilitate matters, the contracting firm should provide in the agreement for the right to import into the U.S.S.R. without duty foodstuffs, clothing, toilet articles, and short-wave radios. The shortage of consumers' goods, foodstuffs, and so on that has prevailed so far in the postwar period may be expected to continue for several years.

Arrangements should also be made to have the technicians' salary paid entirely in American dollars. If that cannot be done, one-half the salary in rubles and the other half in dollars should be insisted upon, as well as the right to send dollars to the United States for deposit. Rubles can be exchanged for dollars at the official rate if one possesses a special permit. The permit is obtainable if the contract provides for exchange from rubles to dollars.

The firm can further aid technicians by providing in the contract that income taxes should apply only to the portion of the salary paid in rubles, and that labor union dues, bond subscriptions, and other contributions will be accepted in rubles, provided, of course, that the firm has arranged that one-half the salary is payable in rubles.

Labor union dues, bond subscriptions, and other workers' contributions are payable by foreign technicians or laborers because foreigners in the Soviet Union are subject to Soviet law. The foreigner may avail himself of the benefits of health protection, medical and dental care, and other privileges available to Soviet workers. And the foreign worker is eligible to premiums, overtime, incentive payments, and other gratuities for savings in manufacturing costs or improvements in manufacture. He may become a member of the trade union, of clubs, may receive low-priced tickets to concerts, and other facilities open to Soviet labor.

In addition to receiving American technicians as arranged in technical-aid contracts, the Soviet Union has made direct agreements with American and other foreign technicians to serve as engineers or consultants. In the early thirties there were approximately one thousand American engineers active in Russia and operating under individual contracts. There were also about two thousand engineers from the following countries combined: Germany, England, Italy, Czechoslovakia, Norway, Sweden, Austria, and Japan.

Though it is not contemplated that individual contracts will be entered into with engineers in the future, there is a possibility that consultants may be called upon. An agreement with an eminent consultant is usually classified as a technical-aid contract. Such was the nature of the contract with Albert Kahn, the architect.

The term of a contract with a private individual is decided by mutual agreement. It has never been longer than five

years. The contract usually provides for a trial period, during which relations may be severed. The foreign specialist, however, has the right to arbitrate if he is in any way displeased with the interpretation. If the work of the specialist is subject to special hazards, the contract includes provision for life and health insurance at the expense of the agency employing him. Otherwise, foreigners have the privilege of insuring themselves at their own expense in the Soviet State Insurance Company.

The specialist, like any other Soviet employee, is entitled to premiums if his work exceeds the plan, and to Soviet social welfare benefits. In most cases compensation is in rubles with special provision for the exchange of a part of the salary which is to be sent abroad.

The reasons the Soviet Union entered into individual contracts were to retain as much direct control as possible over the enterprises and to reduce the cost per expert. The unemployed foreign engineers, whom the Soviet Union could hire, proved less competent than the skilled men furnished under technical-aid contracts. Technical-aid contracts assured continuity of service to the completion of the job and were a greater assurance of quality of work performed. There were some instances when the Soviet Union tried to hire as individuals certain engineers sent by corporations. This plan proved unsatisfactory because the business ethics of the Soviet Union were then questioned. By signing technical-aid agreements, the U.S.S.R. was assured of proper skill in the performance of the task to be accomplished whether the contract was for a small job or for the organization and management of a large plant.

Before World War II, about one-half the technical-aid contracts were signed with German firms, one-third with United States nationals, and the rest were divided among firms in England, France, Sweden, Japan, Austria, and others.

During World War II, American firms furnished technical aid, especially patents and setting up of plants, based on Lend-Lease. Since then, Dresser Industries have been prevented from completing their \$6 million 1946 contract by the United States because of the pending cold war.

The nature of some of the agreements, either wholly or partially technical-aid contracts, signed with nationals of various countries follows:

FRANCE

General Wireless Telegraph—Technical aid relating to radio apparatus and equipment.

Firm Unknown—Complete equipment of factory for distillation of colophony and turpentine from resin.

ENGLAND

Metropolitan-Vickers—Series of contracts: An electrical plant costing about \$5 million; a contract for patent rights for production of artificial silk; training of Russian engineers; aid to Leningrad Engineering Trust in manufacture of steam turbines and condensation units. Some facts regarding the last contract are as follows: At fixed dates the Vickers firm had to place at the disposal of the trust detailed tenders, plans, drawings, and so on, technical calculations, working drawings, information of every description whether related to construction, production, or laboratory experiments. Vickers transferred patent rights, inventions, and patents including those which may have been invented during the term of the agreement. The rights to use the patents, calculations, drawings, and so on applied after the agreement expired. The trust paid a fixed percentage as royalty for the use of the patents until they expired or for five years after the termination of the agreement, whichever was the lesser period. Russian engineers were trained as part of this contract. The trust paid Vickers a fixed sum for technical assistance, plus an agreed license fee based on the cost of the turbines and condensation units constructed, plus so much per unit for the right to use the patents.

Truss & Company—Refrigerators, machinery and equipment, designs and working drawings for the complete construction and equipment of two bacon factories capable of handling 1,000 pigs a week.

GERMANY

Augsburg-Nürnberg—Manufacture and setting up of compressors, machines, and apparatus for cold-storage warehouses.

Bayer Werke, A.G. (Bayer Works)—Construction of airplane motors.

Bergius, Professor—Processing of cattle feed from wood.

Deutz, A.G. in Köln-Deutz—Construction of automotive motors for the Moscow Machine Trust.

Deutz and Mahn Ridinger—Construction of internal combustion engines and refrigerator equipment.

Farbenwerke, A.G. (Dyeworks)—Development of chemical industry in U.S.S.R.

Gebr. Sulzer, A.G.—Establishment of a Diesel motor factory.

Harburger Iron and Bronze Works and Malstroy, A.G.—Establishment and equipment of vegetable and animal oil refining factories.

Koebei—Iron and Bronze Works, Hamburg—Technical aid and equipment of factories for extraction and refining of vegetable and animal oils.

Nitrate Factory, A.G.—Production of partially processed products from "chlorbenzol."

Schliess-Defries, A.G., Düsseldorf—Largest milling machine in the world, total weight 500 metric tons.

Siemens Bau Union—Plans, suggestions, tenders for construction and equipment for utilization of water power of Dnieper River.

Siemens-Schuckert Werke—100,000 volt transmission line around Moscow.

Siemens & Halske, Berlin, and Brown Boveri & Company, Mannheim—Electrification and supply of materials for certain Moscow suburban railway lines.

Telefunken Company of Germany—Designing and erection of stations, apparatus and equipment for transmitting portraits and designs in accordance with Telefunken Carolus System. In-

stallations for wireless transmission, reception, relaying and so on.

Thiessen in co-operation with Stuart, James & Cook—Technical aid in sinking and equipping new shafts and in overhauling and re-equipping old ones in the Don coal basin.

Vereingte Stahlwerke, Otto Wolf und Mannesmann—50,000 tons of pipes for the Baku-Batum oil pipeline and aid in placing.

Other contracts were for hydroelectric power stations, textile factories, tanning works, steam-power plants, and so on. There was also a convention signed between the Central Committee of the Russian Maritime Registry and the German Lloyd, providing for surveyors of the German Lloyd in foreign ports to supervise the work on ships built abroad for the account of the Soviet Union.

SWEDEN

L. M. Ericson—Construction of automatic telephone stations and systems.

Swedish Electrical Works, Christenham—Erection of three turbines for Svir hydroelectric plant. Another for erection of turbines in Folkhov plant with power output of 37,500 kilowatts each.

UNITED STATES

Akron Rubber Reclaiming Company, Akron—Technical assistance to Soviet Rubber Trust in construction of reclamation plant.

Allen & Gracie Co., Chicago—Technical assistance in designing and operating of new coal mines for Donugal Coal Trust, Donetz Basin, Siberia.

Austin Company, Cleveland—Technical assistant for construction of Nizhni-Novgorod Automobile Plant.

Arthur J. Brandt, Detroit—Technical assistance in refitting Amo Automobile Factory in Moscow for production of 25,000 cars annually. Cost about \$7 million.

Brown Lipe Gear Company, Syracuse—Technical assistance to Avtotrust.

Burrell-Mase Engineering Company, Pittsburgh—Assistance to

Grozneft for rationalization and expansion of gas and pipeline industry.

Clark Equipment Company, Buchanan, Mich.—Contract, late 1946, for rear axle housings.

Hugh L. Cooper & Company—Consulting engineers, construction of Dnieper River Hydroelectric Power Plant in Ukraine. Cost around \$60 million.

Arthur P. Davis, Lyman Bishop and Associates—Consulting engineers, irrigation projects for Sredazvodkhoz (Central Asiatic Water Economy).

Frank E. Dickie—Technical assistance for Aluminstroi (bureau for construction of aluminum plants).

Dresser Industries, Cleveland—Spring of 1946, designing and building of gas liquification plant. Cost around \$6 million.

DuPont de Nemours & Company—Technical aid in erecting fertilizer plants, and in 1943 for production of synthetic rubber.

Electric Autolite Company, Toledo—Aid to United Electrical Industries, production of electrical equipment for automobiles and tractors.

Farquhar Engineering Group—Re-equipment of Makeyeff Steel Works, construction of experimental concentration plant—1,600 tons of concentrates per annum; tests on quartzite iron ores, Krivoi Rog mines—contracts involved not only complete technical co-operation but also execution of work.

Hardy S. Ferguson & Co., New York—Aid to Severless (Northern Lumber Trust), reconstruction of paper mill near Archangel.

Ford Motor Company, Detroit—Sales of cars and construction of automobile factory in Nizhni-Novgorod. Ford supplied working drawings, specifications of Ford machines, and plan of organization for production. Total cost over \$118 million.

Freyne Engineering Company, Chicago—Consulting engineers to Giprometz (State Institute for the designing of steel mills)—design and construction and reconstruction of steel mills. Kuznetsk Steel Mill annual capacity one million tons. Cost of Kuznetsk Mill with auxiliary enterprises and workers' town, about \$150 million.

Harry D. Gibbs—Aid to Soviet aniline industry.

Glenn-Martin Company, Baltimore—Sale of Model 156, a

clipper ship, and set of drawings, training of 3 Russian engineers; cost \$1,500,000; 1937. Earlier contract for Model V10B.

Goodman Manufacturing Company, Chicago—Aid in construction of factory to produce coal cutters.

Hercules Motor Company, Canton—Aid in construction of heavy automobile truck engines in Moscow and Yaroslav factories.

John J. Higgins—Aid to GET (State Electro-Technical Trust).

International Business Machines Corporation, New York—Leasing of accounting machines and furnishing technical aid in training Soviet engineers in their care and use.

International General Electric Company, New York—Sales and technical-aid contracts, training of Soviet engineers. Since World War II, materials for reconstruction of Dnieper Power Plant and sale of electric railway locomotives.

International Tel. and Tel., New York—1936 contract for Moscow-Khabarovsk telegraph line; other contracts between 1945 and 1947.

Irving Air Chute Company, Buffalo—Aid to aviation industry.

Albert Kahn, Incorporated, Detroit—Design of buildings for Stalingrad Tractor Factory. Consultant to Supreme Economic Council as architect on industrial construction.

Koppers Company of Pittsburgh—Construction of coke plants and 450 coke ovens for by-products. Cost about \$18 million. Construction of buildings subcontracted to Arthur McKee of Cleveland.

Lockwood, Greene Engineers, Inc., New York City—Reorganization and reconstruction of textile mills and design and construction of new plants.

McCormick Company—Design of baking units.

McDonald Engineering Company, Chicago—Construction of industrial plants.

Mechanical Manufacturing Company, Chicago—Aid to meat-packing industry.

Mesta Machine Company, Pittsburgh—Construction of rolling mill, completed in 1941.

Arthur McKee & Company, Cleveland—Construction of Magnitogorsk Steel Plant and supply of furnaces and equipment.

Capacity of plant 4 millions tons annually; cost about \$400 million. Contract in 1935 for high octane gasoline plant.

Newport News Shipping and Drydock Company, Newport News, Va.—Aid in construction of turbines. Sales of turbines during and since World War II.

Nitrogen Engineering Co., New York—Aid in construction and operation of large ammonia fertilizer plant.

Oglebay, Norton Company, Cleveland—Aid to Yurt (Southern Ore Trust), design, construction, operation of iron ores mines.

Radio Corporation of America, New York—Exchange of patents and technical information with Soviet Weak Current Trust. Since 1945, several large purchase orders.

Radiore Company, Los Angeles—Aid to United Nonferrous Metals Industries (U.S.S.R.) in locating ore deposits.

Roberts & Schaeffer Co., Chicago—Aid to Donetz Coal Traut.

C. F. Seabrook, New York City—Several road-building agreements, one in Moscow District and another in cotton area of Tashkent.

Seiberling Rubber Company, Akron—Design and aid in construction of rubber tire plant, Yaroslav. Output per 7-hour shift, 3,100 auto tires, 9,000 bicycle tires, and 480 motorcycle tires. Trained Russian engineers.

Southwestern Engineering Corporation of Los Angeles—Aid to United Nonferrous Metals Industries in design, construction, and operation of concentration plants.

Sperry Gyroscope Company, Brooklyn—Aid in manufacture of marine products. Other agreement for sales of military and naval instruments, gyroscopic instruments, and searchlights.

Stuart, James and Cooke, New York City—Thirteen technical aid-contracts for development of the coal industry.

Timken-Detroit Axle Company, Detroit—Aid to Soviet automobile and tractor factories.

United Engineering and Foundry Company, New York—Several contracts for hot and cold strip mills, aluminum rolling mill, and so on. Contracts signed in 1935, 1937, 1941, and 1944.

Westvaco Chlorine Products Company, Charleston, W. Va.—Aid to United Chemical Industries (U.S.S.R.) for production of chlorine.

Arthur E. Wheeler and Associates, New York—Contract with

United Nonferrous Metals Industries for aid in development of deposits in Siberia.

J. G. White Engineering—Consultant to Svir Hydroelectric Plant near Leningrad.

W. L. Wimmeler—Technical assistance in gold mining.

W. A. Wood—Aid in construction of Nonferrous metals manufacturing plant for Nonferrous Metals and Gold Combine (Tzvet-metzoloto).

Other contracts pertained to tractor works in Stalingrad with a production of not less than 10,000 tons per annum, to lathe construction works, a toolmaking plant, wagon construction works, aero engine works, agricultural implement plants, a plant for building river tonnage, a steam-boiler plant, another for printing machinery, a typewriter and accounting machine factory in Moscow, a factory for production of dental and surgical instruments, another for manufacturing beer, factories for pressure gauges and similar instruments, for machinery for sugar and distilling industries, for the silicate industry, the leather industry, plants for manufacture of sawmill equipment, for equipment for the watch industry, plants for the manufacture of elevators, conveyors, and so on, a bicycle factory, plants for road-making machinery and railway rolling stock. There were five contracts for the production of cement and one for a factory which produces cement machinery. None of these cover Lend-Lease aid.

There should be a number of opportunities for airplane technical-aid contracts. In the early part of World War II the Soviet Union was reproducing Martin Model V10B in fairly large quantities. This plane was then obsolete in the United States. Advances since then have not kept pace with the United States.

As has been indicated, technical-aid agreements prove advantageous to the firms that enter into them. George H.

Magner, while vice-president of International General Electric, said:

It is needless to say that all obligations of Amtorg and the Soviet industrial organizations are meticulously met. Business relations between IGE and the Soviet organizations—primarily through the agency of Amtorg—continued to develop to the mutual benefit of IGE and the Soviet industry. There is no doubt that the experience of both parties in their pleasant business relations in the past will lead to large contracts in the future.

The former International Business Machine Corporation's representative in the U.S.S.R. said: "In my dealings with the Russians I have found them scrupulously honest in meeting their financial commitments."

R. E. Gillmor, vice-president of the Sperry Gyroscope Company, at one time revealed that Russia was one of his company's best customers. He said:

In all our dealing with the country, we have found the government agreeable and businesslike and it has been a pleasure to deal with it . . . It is apparently the plan to emulate our methods of manufacture in many fields, and consequently the outstanding organizations in each particular field will be called upon to offer assistance.

The experiences of the International General Electric Company, and the Sperry Gyroscope Company were shared by all American and other foreign firms which were favored with Russian contracts. The following is a quotation from the director of the United Engineering and Foundry Company, Charles M. Muchnic:

In the early thirties the Soviet government initiated negotiations with the United Engineering & Foundry Company of Pittsburgh for the design and supply of a modern continuous

hot and cold strip mill, which had been but a few years old in the United States at the time, and represented a radical departure in the production of sheet steel for automobiles, iceboxes, tin-plate, and so on. There were several of such mills in actual operation, notably the one installed by the United Engineering and Foundry Company at the Ford Motor Car Company plant.

In 1935 a contract was signed with the Soviet Government for a 66" continuous hot strip mill and corresponding cold mills and auxiliary machinery to be installed at Zaporjostal, which is adjacent to the Dnieper Dam. This plant was in operation within two years after the signing of the contract and represented the first continuous hot and cold strip mill in operation outside of the United States.

Up to the war the plant produced satisfactory steel products in excess of the guaranteed capacity of the builders.

In 1937 the Soviet Government and the United Engineering & Foundry Company entered into a contract for the supply of machinery for the production of flat rolled aluminum and duraluminum products for the manufacture of airplanes. The machinery to be supplied was to represent a radical departure from the machinery then in existence in the United States or elsewhere, viz.—the adaptation for the rolling of aluminum sheets of much wider width than was obtainable in the United States or elsewhere at that time, also from ingots four or five times the size generally used, and to develop a process that was similar in the production of rolled steel from large ingots to coiled form. The capacity of such plant was to be five million pounds per month of aluminum flat rolled products, and was beyond anything available in the United States in any single plant, or of the combined production of all aluminium plants in the United States.

The Russians in ordering such a plant have displayed a great deal of courage and vision as to their ultimate requirements, particularly in view of the outbreak of World War II several years afterwards. The plant was in full operation in 1939.

In 1941 the Soviet Government ordered a duplicate plant which was shipped to the U.S.S.R. in 1942 and early 1943.

In 1944 they purchased a rail and structural mill with a capacity of 800,000 tons of rails and structural shapes per year.

It is the largest rail and structural mill in Europe and compares very favorably with the largest rail rolling mills in the United States.

In addition to these four large mills, the "United" built and shipped to the U.S.S.R. quite a quantity of miscellaneous machinery such as shears and some 25 steam hydraulic forging presses, ranging from 750 to 3,000 tons capacity each.

The relationship between the Soviet Government's engineers and the United Engineering & Foundry Company in the process of the execution of the above large contracts has been mutually satisfactory and agreeable. The negotiations for such contracts were long and laborious but once a contract was signed, the Soviet Government lived up to such contracts 100 per cent. There is every reason to believe that the U.S.S.R. will continue to purchase rolling mill equipment for its steel industry in the future in the United States.

PROFITS, PAYMENTS, AND BANKING

PROFITS

As has been pointed out earlier, the Soviet government guaranteed the concessionaires a profit of between 10 and 20 per cent. It also guaranteed to purchase a sufficient proportion of the output to ensure the concessionaire the specified profit. But in most cases the profits reached much higher proportions than the Soviet government guaranteed.

Between October, 1926, and September 30, 1927, an American firm which had a concession to produce pencils, made a profit of 1,490,000 rubles (\$768,000) on a capital investment of 2,000,000 rubles (\$1,030,930). The profit from concessionaire undertakings in the production field averaged 53 per cent between 1926 and 1927, and in 1927 it was 64 per cent of the invested capital after all payments had been deducted.

Nineteen of the manufacturing concessions made an average profit of 100 per cent in 1926 to 1927 and 140 per cent in

1927 to 1928. After deduction of reinvested profits, the average net came to 59 per cent in 1926 to 1927, and 72 per cent in the following year.

The twenty-two chief industrial concessions, with a total investment of 8,275,000 rubles (\$4,210,000), made a profit in 1926 to 1927 of 4,755,000 rubles (\$2,460,000). The German firm, Leo Dresden, which commenced work in 1927, made a profit during its first year of 159 per cent. In the textile industry two concessionaires made respectively 27 per cent and 40 per cent profit. SKF, which was then manufacturing ball bearings in the Soviet Union, made 62 per cent profit the same year. Aften, a Finnish firm, made the smallest profit of any concessionaire—22 per cent. These figures represent clear profits after deduction of all payments to the Soviet government, and the concessionaires had the right to convert the net profits into foreign currency at the State Bank of the U.S.S.R. at the current rate of exchange for rubles and to transfer the funds abroad.

Mr. Xandroff, who was head of the Central Concessions Committee in Moscow said, in November, 1928, that export concessions were "enormously profitable, making usually 30 to 35 per cent and even as much as 150 to 400 per cent profit in certain cases."

Detailed figures with respect to profits on technical-aid agreements are not available, but it is generally known that these proved no exception to the rule.

It is interesting to note that, while many foreigners who had investments in the Soviet Union withdrew with the advent of the Communist regime in 1917-1918, those who remained and continued to produce were unmolested by the Soviet authorities and made handsome profits.

Based on Article 3 of a decree in 1921, which became a special regulation of the Commissariat of Justice in 1927,

private enterprises with a staff of more than twenty salaried employees were permitted to remain "outside of and unattached by the general expropriation measures" under certain conditions. These conditions were that private industrial enterprises—with a staff of more than twenty salaried employees—which existed before the October Revolution, 1917, and continued to operate up to May 17, 1921, without being nationalized, had the right to "carry on from now henceforth as hitherto" provided they took the proper measures for registration and had all activities sanctioned as required by law.

Among the very few foreign firms that continued to operate was the SKF Ball Bearing Company, which made large profits until the early thirties, when the Soviet Union decided to buy up the interests of the company, as was done in the case of most concessions at that time.

Payments by the Soviet Union

The Soviet Union was able to pay its obligations without difficulty until the Tchervonetz, a 10-ruble note backed by gold security, was no longer quoted on the international exchange in 1926. The discontinuance of the quotation of the ruble on the foreign exchanges caused it to lose value abroad. Instead of 1.94 for the dollar, the official rate at that time in the Soviet Union, rubles could be obtained in some foreign countries for as many as 12 for the dollar. To prevent the continuance of the fall of the ruble, the Soviet Union enacted the decrees of July 9, 1926, and March 21, 1928, which prohibited the export of rubles from the country. Later the official rate of the ruble was reduced to about 19 cents. The value today officially for foreigners is five to the dollar. For foreign diplomats a special rate of eight to the dollar prevails.

As a result of the fall in the value of the ruble abroad, the

assignment of profits in money to concessionaires became a great hardship on the Russian government. It needed as much of its foreign currency as possible to pay for imports. Even the purchase of most concessions in the early thirties did not relieve the situation.

In order to increase its foreign currency, the Soviet Union in 1936 limited its exports to certain countries which could not pay for them in the currency it desired. On January 16, 1936, the People's Commissars placed the following restrictions on exports: Exports to Portugal, Rumania, and Yugoslavia were permitted only on condition of payment in British pounds sterling, American dollars, French francs, Dutch guilders, or Swiss francs, with the right of remitting these currencies abroad. Exports to Hungary were permitted under the same conditions, and also on the basis of existing or future compensation agreements with the confirmation of the Commissariat for Foreign Trade in each individual case. Exports to Germany had to be paid for in the same foreign currencies or German marks, with the right to export them abroad. The Germans had to guarantee the free utilization of their payments for obligations of the Soviet economic organizations or the trade delegations.

The Soviet Union made the best of its difficult situation arising from the withdrawal of the ruble from the international exchange and from the depression of the early thirties, which reduced the value of its exports. The U.S.S.R. met all its obligations meticulously whether with respect to concession, technical-aid, purchase, or any other type of agreement with a private firm or individual.

In connection with purchase agreements, the most common form of payment for purchases involving long-term credits was 25 per cent before shipment and the balance over a period of time. That is the way the obligations to

International General Electric were handled. Further details about credit accounts will be taken up under "credits" in the next chapter.

Before World War II a number of American firms sold to Russia on the basis of payment within forty-five days after shipment. Today Russia is paying thirty days after shipment, but is asking for long-term credits. The manner by which technical-aid agreements were paid for is referred to on page 94.

During the forthcoming period, if our government grants a credit on behalf of the Soviet Union, payments will be made to firms and individuals in cash against that credit. If the credit granted by the United States is much below the requirements, private credit will again be necessary, especially on tools and heavy equipment.

PAYMENTS TO THE SOVIET UNION

Purchases made by Americans are usually for cash. At the fur auctions in the U.S.S.R., payment is made by buyers in cable dollars. Immediately after the sale, 25 per cent of the value of the goods purchased is paid to the State Bank of the U.S.S.R. or one of its correspondents abroad. The 25 per cent must be paid in cash by approved bank checks or by cable transfers. If payments are made by means of cash or checks, the purchaser must pay the difference between the check and cable rate.

BANKING

For the convenience of foreigners two types of accounts in foreign currency may be opened with the State Bank of the U.S.S.R., Neglinnaya 12, Moscow, or with any of its branches. They are: current account type "A," the balances of which may be freely transferred abroad; and current account type

"B," whose balances may be disposed of only within the U.S.S.R. Either type may be opened by foreign citizens, individuals or corporations, regardless of whether they reside in the U.S.S.R. or abroad. If the depositor resides abroad, remittances are made through the foreign correspondent of the State Bank. In the United States the principal correspondent is the Chase National Bank in New York City. Among the leading correspondents in other countries are the Moscow Narodny Bank, London; the Banque Commerciale pour l'Europe du Nord, in Paris; and the Garantie und Kredit-Bank für den Osten, in Berlin.

To open an account, corporations are usually required to obtain a permit from the Ministry for Finance. If the depositor is an individual, no permit is required.

Payments from both types of accounts may be effected on demand in actual foreign currency or in rubles, as desired by the holder of the account. Payments from type "A" accounts may be effected also in checks of the State Bank drawn on foreign correspondents or in travelers' checks of the State Bank, but personal checks may not be sent abroad.

When one desires to close current account type "A" at time of departure, the depositor should secure a permit from the bank authorizing him to take out the entire balance on deposit. Inasmuch as such permits are valid for only fifteen days from date of withdrawal, funds should be redeposited in a similar account if departure is delayed.

Interest on accounts in foreign currency is payable annually in the currency in which the account was opened. The interest rates were until 1944 as follows: 6 per cent for regular drawing accounts, 7 per cent for accounts placed on fixed deposit for six to twelve months, and 8 per cent or over for accounts placed on fixed deposit for one year or more. Interest rates are fixed by the main office of the State Bank and

may be changed by the latter at any time, due notice being given the holders of accounts.

Banking matters appear to have been settled amicably and no arbitration has been required in connection therewith. Arbitration has been resorted to in some instances with respect to the interpretation of contracts.

ARBITRATION

In the execution of large contracts for foreign trade transactions or where considerable engineering and construction work has to take place both before shipment and in the U.S.S.R., certain differences in the interpretation of the contract are likely to arise. When such differences do arise, the parties to the contract try to settle the problem amicably without resort to any tribunals. But if this fails, disagreements may be settled by arbitration in courts or by arbitration tribunals in the Soviet Union or elsewhere.

Soviet foreign trade, technical-aid, concession, and other agreements relating to business either contain a clause or are supplemented by a separate contract, which provides for the settlement of disputes relating to the interpretation and fulfillment of the agreements. The agreements provide for settlement of disputes by either arbitration or litigation.

Since up to 1935 most agreements were signed abroad, provision was then made for arbitration in foreign countries. For example, the Remington Rand Corporation in New York utilized for trade with the Soviet Union their regular form contract, which contains provision for arbitration in New York. The Lena Goldfields dispute was tried in German and British courts. (For a summary of the Lena Goldfields concession and arbitration see Appendix 3.)

British courts also have tried the cases of *A. M. Luther v. James Sagor & Company* (1921); *Russian Commercial and*

Industrial Bank v. Le Comptoir d'Escompte de Mulhouse and Westminster Bank (1925); *Russian-English Bank v. Baring Brothers & Company* (1932); *Lazard Brothers v. Industrial Bank of Moscow* (1933); *Cantiera Navale Triestina v. Handelsvertretung der Russe Naptha Export Syndicate* (1925); *Anastassia v. Ugleexport* (Kharkov); *Akties Dampskibs Heindal v. Russian Wood Agency, Ltd.*, on behalf of Exportless, the Soviet agency for the export of lumber (1933); and others.

Beginning in 1936, when most contracts were signed in the Soviet Union, a strenuous effort was made to provide for arbitration in the Soviet Union. This was the main subject for discussion at the conference of the Council of Russian Trade Commissars in 1936. This policy, however, is not new. During tsarist times, all trade contracts to which Russia was a party provided for arbitration in the Russian law courts.

As a result of the Soviet Union's effort to increase provision for arbitration in its own country, during the first quarter of 1936 all the transactions of the coal export trust, the fur export trust, and the flax export trust provided for the settlement of disputes in the U.S.S.R. Similar provision was made in 96 per cent of the transactions of the timber export trust, in 73 per cent of the foreign contracts of the machine and metals export trust, and in 72 per cent of the transactions of the miscellaneous export trust.

Later in 1936 contracts were again concluded abroad and the arbitration policy was reversed. Contracts were concluded abroad because of the sabotage trials and the forthcoming international difficulties.

Since World War II, however, an effort has been made to equalize the proportion of transactions that will be subject to foreign or Soviet tribunals. This equalization principle may be applied within a specific contract. For example, the United Engineering and Foundry Company signed several

contracts. The one concluded in 1935 provided for arbitration entirely within the United States. The one concluded in 1937 and subsequent ones provided for arbitration in the U.S.S.R. with reference to all matters pertaining to the installation of equipment, operation of the mill, and all other matters the performance of which was completed in the U.S.S.R., and arbitration in the United States with reference to all matters the performance of which was to be carried out in the United States.

To date no American firm has had occasion to utilize the provisions of an arbitration clause or contract, all differences having been amicably settled by conference. Nationals of other countries have had occasion to resort to arbitration, and their governments have included provision regarding the rights of their nationals in international agreements concluded with the U.S.S.R. In addition the rights of foreign firms are referred to in the 1931 decree relating to the admission of foreign firms to carry on operations within the U.S.S.R.

Articles relating to arbitration are contained in the U.S.S.R. treaty with Italy of February 7, 1924 (Article 9); with Germany, October 12, 1925 (Article 16); with Czechoslovakia, March 25, 1935 (Article 9); with Norway, October 15, 1925 (S.Z. 1926, Chapter 1, Sec. 163); with Latvia (S.Z. 1926, Chapter 2 (1), Sec. 19), and in treaties with other countries. The British and French enjoy the same rights based on the principle of most-favored-nation policy, in Article 1 of the Anglo-Soviet Agreement of February 16, 1934, and in Article 9 of the French-Soviet Agreement of January 11, 1934. The provision respecting the rights of foreign firms in the treaty with Germany is quoted here:

All kinds of stock companies and trade partnerships, including industrial, financial, insurance, servicing, communication

and transport, located in the territory of one of the contracting parties and legally existing according to the laws of that country, are recognized as legally existent within the territory of the other party; this applies also in respect to their right of operations and the right to appeal to the courts where they are treated according to the laws of their native country. Their admission for business operations, however, within the territory of the other party, is determined by the laws and decrees there existing at the particular period.

This paragraph is followed by the most-favored-nation clause as follows:

In any case, in regard to conditions of their admission and the carrying out of their activities, as well as in all other respects, they enjoy the same rights, preferences and exemptions which are enjoyed by the enterprises of a third government.

Even if no trade treaty or other convention exists between certain governments—the United States for example—and if arbitration is not referred to in a trade or business contract with a foreign firm, and even if the contract is signed in a foreign country, Soviet law permits a foreign firm, which has legal status in its own country, to have access to the courts and to arbitration, provided the nationality of the firm doing business with the Soviet Union represents a country granting the same privileges to trading organizations of the U.S.S.R.

The legal basis for this assurance is contained in Clause 2 of Article 8 of the decree of the Central Executive Committee of the RSFSR dated November 11, 1922. This decree provides that foreign legal bodies, even if they are not permitted to conclude operations in the U.S.S.R., may appeal to the courts of the Soviet Union regarding transactions concluded outside the borders of the U.S.S.R., provided the legal companies of the U.S.S.R. (economic organizations, com-

bines, trusts) enjoy the same right to legal protection in the country where the firm is permanently located.

For example, until Belgium resumed diplomatic relations with the Soviet Union, U.S.S.R. organizations were unable to appeal to Belgian courts. For this reason Belgian companies likewise had no right to present claims to Soviet courts.

In connection with the settlement of disputes on the territory of the U.S.S.R., the Code of Civil Procedure of July 20, 1936, permits Soviet courts to take into consideration the laws of the country to which the foreign firm belongs. This Code of Civil Procedure was enacted in each of the Union republics identically and at the same time. It outlines the types of cases that may be heard and the type of law that shall be applied. With respect to the types of cases, it lists the following:

1. Cases submitted voluntarily to the Soviet courts which involve provisions of a contract, or which arise out of transactions made, performed, or to be performed on the territory of the U.S.S.R.

2. Cases which involve a defendant whose permanent residence or permanent place of business is in the territory of the U.S.S.R.

3. Cases in which the defendant has property in the U.S.S.R. though his residence is unknown.

4. Cases respecting disputes arising out of transactions which take place within the U.S.S.R.

The Soviet courts exercise jurisdiction over any case if they are satisfied that they have such jurisdiction. The choice of court is up to the plaintiff. Disputes, however, which relate to foreign contracts may be settled by an arbitration tribunal, the basis and organization of which will be explained in the following pages.

The laws that apply to the courts are also basic for the actions of arbitration tribunals. In Article 3 of the Code of Civil Procedure of the RSFSR it is stated that Soviet courts should apply Soviet law in all cases referred to them. Article 7 instructs the Soviet courts to take into consideration foreign law in disputes arising out of contracts made abroad. This article reads as follows:

In considering contracts and acts made abroad, the Court has to take into account the laws in force at the place where such contracts and acts are concluded, provided these contracts and acts are permitted by Soviet laws or by agreements of the RSFSR with the State on the territory of which they are made.

Therefore, Soviet courts or arbitration tribunals apply Soviet law, and in connection with contracts made abroad take into consideration the laws of the country in which the foreign firm is located. Soviet courts recognize the principle of private international law.

According to international law, however, a foreign firm may be subject to local jurisdiction only on condition of its consent thereto. The Soviet Union has sanctioned contracts which stipulate the system of law to be applied in case of dispute, provided there are no serious objections thereto.

Article 7 of the Code of Civil Procedure, which instructs the courts to take into account foreign law when they consider contracts and acts made abroad, appears to relate primarily to questions of the formalities and the formal validity of such contracts and acts. Regarding questions of essential validity and illegality of contracts made abroad, Soviet courts have to bear in mind both Soviet law and the law of the country where the contracts were made.

If, for example, the contract made abroad is illegal by the law of the country where it was signed, and valid under Soviet law, the Soviet court has to decide whether or not it

can be enforced in the U.S.S.R. Though Soviet courts are not bound to refuse to give effect to such contracts, in the majority of these cases they considered them unenforceable, in accordance with their principle of private international law.

On the other hand, if a contract made abroad is illegal in the Soviet Union, the Soviet courts may and in most cases have refused to enforce such a contract in spite of its validity in the foreign country.

Questions concerning the interpretation of a contract, the nature and extent of its obligations, as well as questions with regard to the performance and discharge of contracts, are usually governed in Soviet courts by Soviet laws.

Since Soviet law does recognize the principle of private international law, it is best to state in arbitration agreements which laws will be applied under various circumstances, whether the law is to be applied by the courts or by arbitration tribunals.

Before the establishment of the Foreign Trade and Maritime Arbitration commissions, litigation, in accordance with Article 24 of the Civil Procedure Code, was laid before the High Court of Justice of the U.S.S.R., when the government was the defendant. It was laid before a Regional Court, in accordance with Articles 21, 22, and 23 of the Civil Procedure Code, when the concessionaire was the defendant.

The Foreign Trade and Maritime Arbitration commissions of the All-Union Chamber of Commerce in Moscow were instituted by law to facilitate arbitration in the U.S.S.R. The maritime law was adopted by the Central Executive Committee of the Council of People's Commissars of the U.S.S.R. on December 15, 1930. It established a Maritime Arbitration Commission attached to the All-Union Chamber

of Commerce in Moscow. This commission settles disputes connected with collisions and/or damage of ships at sea.

The Foreign Trade Arbitration law was enacted by the same executive body on July 17, 1932, for the purpose of setting up a Foreign Trade Arbitration Commission attached to the All-Union Chamber of Commerce to settle disputes arising out of foreign trade transactions.

Section 2 of the statutes provides that the commission "consist of 15 members appointed for one year by the Presidium of the All-Union Chamber of Commerce from representatives of trading, industrial, transport and similar organizations, as well as from among persons possessing special knowledge in foreign trade." The list of arbitrators consists not only of Russians; it contains names of foreign nationals as well.

The Foreign Trade Arbitration Commission functions just as does a Special Court of Arbitration. When a dispute is submitted to it, each party appoints an arbitrator from the list of members of the commission (Section 4 of the statute), "not later than fifteen days after the arbitrators are nominated." The two appointed arbitrators elect an umpire from a panel of members of the Foreign Trade Arbitration Commission. If the arbitrators fail to agree upon the umpire within a specified period, the umpire is appointed by the chairman of the Foreign Trade Arbitration Commission from members of said commission (Section 5 of the statute).

By mutual agreement, the parties may permit the Foreign Trade Arbitration Commission to nominate the arbitrators. In such case, the chairman of the Foreign Trade Arbitration Commission may, at his discretion, appoint one of the members of the Foreign Trade Arbitration Commission to decide the dispute as sole arbitrator (Section 6 of the statute).

If one of the parties fails to nominate the arbitrator within the period specified by the contract, "the chairman of the

Foreign Trade Arbitration Commission, at the request of the other party, appoints, at his discretion, another arbitrator, and the latter, in agreement with the arbitrator nominated by the other party, appoints an umpire" (Section 8 of the statute).

In practice, the parties usually stipulate in the agreement of submission that each party appoints an arbitrator and that the two arbitrators are to appoint an umpire. To provide for the appointment of an umpire if the two arbitrators fail to agree, contracts contain special arrangements. Some concession agreements provided that when the arbitrators elected by the signators do not come to an agreement with respect to the election of an umpire, the nomination of the umpire may be entrusted to some scientific body, such as the U.S.S.R. Academy of Sciences. In the Pri-Amur mining contract, it was stated that, should the arbitrators fail to agree on an umpire, the Mining Institute in Leningrad was to nominate six well-known European mining experts or lawyers from among whom the company would select a final arbitrator.

According to the latest arbitration agreement (1944) between the United Engineering and Foundry Company and the Soviet Union, one member of the arbitration committee is selected by the company, one by Amtorg, and these two select a third. If the arbitration is to take place in the United States and the two arbitrators cannot agree on an umpire within ten days after they have been chosen, upon request of either of the two a third arbitrator shall be appointed by the American Arbitration Association. If the arbitration is to be held in the Soviet Union and no agreement is reached upon the third member of the arbitration tribunal within ten days after the two were named, the Presidium of the Academy of Sciences makes the choice. The agreement states, "The arbitrators so selected hereunder shall hear and determine the

matter in dispute and a decision by them shall be final and binding upon both parties thereto." The agreement also states that the costs for the arbitration are to be determined by special arrangement. If no such arrangement is agreed upon, the costs are divided between the two parties.

The Foreign Trade Arbitration Commission exercises its jurisdiction upon receipt of the pleadings of the interested parties. The pleadings must contain:

1. Names of plaintiffs and defendants
2. Place of residence of plaintiffs and defendants
3. Statement of claim
4. Name of arbitrator chosen from the list of the members of the Foreign Trade Arbitration Commission or indication that the appointment of the arbitrator is left to the discretion of the Foreign Trade Arbitration Commission, unless some other provision is made in the agreement with respect to the choice.

The original or duly certified copies of all documents connected with the case under dispute, such as contracts and correspondence between the parties, which may help to establish the circumstances of the case, must be attached to pleadings. The pleadings must be filed in duplicate. After the receipt of these data, the Foreign Trade Arbitration Commission immediately communicates with the defendants, sending them one copy of the pleadings with all the documents attached.

If the defendants reside in the U.S.S.R., their arbitrator must be selected within ten days from the date the copy of pleadings is handed to them. If the defendants reside outside the U.S.S.R., the period allowed for appointment of an arbitrator is thirty days unless otherwise provided. Within five days of the appointment of the defendant's arbitrator, the Foreign Trade Arbitration Commission informs the plain-

tiff's arbitrator of the appointment, and the two must select an umpire before the expiration of fifteen days.

Should the parties fail to appoint their arbitrators, or the arbitrators fail to appoint an umpire, then the Foreign Trade Arbitration Commission exercises its powers as indicated above unless the contract contains some special provision regarding the choice.

At the discretion of the parties, they may represent themselves or be defended by their representatives—experts, lawyers, and so on, who may be Soviet citizens or persons of foreign nationality (Section 7 of the statute). The burden of proof is upon the claimant, although the commission may also gather evidence on its own initiative. Evidence may be excluded if not essential or if irrelevant. The hearing is in open session. Failure of one of the parties to appear does not prevent the hearing.

The Foreign Trade Arbitration Commission may require from the parties under dispute any documents, evidence, explanations, and the like which it thinks necessary for the consideration of the issue, provided always that the decision rests with the majority of the arbitrators. It has the authority to ask for the examination of any witnesses. The extent and manner of examining the witnesses and experts, the type of documents to be submitted, and the scope of consideration of all evidence are left to the discretion of the Foreign Trade Arbitration Commission.

The Foreign Trade Arbitration Commission may fix the amount and nature of the security required in connection with the claim under dispute (Section 9). The commission also collects a charge for expenses arising in connection with the arbitration: arbitrators' fees, expenses of calling witnesses (service of writ), experts, and so on. The charges are paid by the parties to the Arbitration Commission, and may not

exceed 1 per cent of the amount claimed (Section 10). The payments to witnesses, experts, and the arbitrators' fees are made by the Foreign Trade Arbitration Commission from the sum collected. These charges are in addition to witnesses', experts', and lawyers' fees paid by the parties subject to the arbitration. Such costs may be awarded to the party who wins the case, but the amount must not exceed 5 per cent of the sum awarded under the dispute (Section 26 of the Rules of Procedure).

The Rules of Procedure issued by the Presidium of the All-Union Chamber of Commerce provide that all decisions and awards of the Foreign Trade Arbitration Commission must be adopted by a majority of the arbitrators. All acts and powers exercised by a majority of the arbitrators are considered as acts of the Arbitration Commission as a whole. The umpire is authorized to exercise the power of the Arbitration Commission and to state decisions of the arbitration and/or make award as adopted by the majority of the arbitrators.

There is no appeal. Section 12 of the statute provides that the awards of the Foreign Trade Arbitration Commission must be complied with by the party against whom the award is entered within the period fixed by the commission. "In the event the decision is not complied with, it may be enforced in accordance with the provisions of the Civil Procedure Code regarding the enforcement of deviations of the Court of Arbitration." The code provides in Section 201 and 255 that, "Should it be necessary to enforce an Award of the Court of Arbitration, the judge grants an order for the enforcement." According to Section 202, the judge, when giving the order of enforcement, ascertains whether the award is made in accordance with the requirements of the Court of Arbitration and whether or not it is in general con-

trary to the law. The judge does not consider the substance of the award, but only ascertains whether the award is or is not contrary to the law and whether the arbitration was conducted in compliance with the Rules of Procedure prescribed for the Foreign Trade Arbitration Commission.

In cases when the judge refuses to grant an order for enforcement of the award, the party interested in such enforcement may make a complaint to the court and ask for a hearing. In accordance with Section 203 of the code, the question of the enforcement must then be decided by a full court containing a judge and two assessors.

The statutes of the Maritime Arbitration Commission of the All-Union Chamber of Commerce, enacted by the Central Executive Committee and the Council of People's Commissars of the U.S.S.R., December 15, 1930, are in principle the same as the statutes of the Foreign Trade Arbitration Commission, with the following exceptions:

1. The Maritime Arbitration Commission deals only with disputes regarding collisions and/or compensation for salvage at sea.
2. The period for the appointment of arbitrators by each of the parties to the dispute is thirty days instead of ten and thirty as required by the Foreign Trade Arbitration Commission.
3. Cases may be appealed. The awards of the Maritime Arbitration Commission may, on the application of the interested party or on the intervention of the public prosecutor of the Supreme Court of the U.S.S.R., be set aside by the Supreme Court of the U.S.S.R. and referred back to the Maritime Arbitration Commission for reconsideration.
4. The award comes into force if during the period of one month from the date of the award neither party has complained and the public prosecutor of the Supreme Court of

the U.S.S.R has not objected to the award. After the expiration of this period, according to Section 255 of the Code of Civil Procedure, the award of the Maritime Arbitration Commission, if not executed, is carried out by an order of enforcement issued by the president of the Maritime Arbitration Commission.

The Maritime Arbitration Commission bases its awards on the following considerations:

1. Extent of the damages to the salvaged vessel.
2. Difficulties of salvage and the danger to the salvaging vessels.
3. Labor and efforts of the salvors and expenses incurred by them.
4. Results of the salvage work.
5. Value of the salvage property.

By decree of December 8, 1933, the scope of the Maritime Arbitration Commission was extended to include disputes concerning collisions at sea and damage to piers, wharves, and so on at ports.

The form of contract of the commission is identical with Lloyd's form of salvage agreement with the exception that the former provides that arbitration shall be in Moscow.

During the five years ended December 31, 1935, the Maritime Arbitration Commission dealt with 65 cases involving awards of £171,106 (about \$838,727). During the same period 229 cases dealt with by arbitration under Lloyd's form of salvage agreement resulted in awards totaling £368,311 (about \$1,805,387). There were 75 appeals.

The U.S.S.R. Maritime Arbitration Commission began to function in 1932. Of the 65 cases handled, 36 concerned disputes between Soviet organizations. Of these, 27 resulted in awards totaling £63,852 (about \$312,990); 7 cases were dismissed. Of the seven cases dismissed, four were claims of

foreigners against Soviet organizations and three claims of Soviet organizations against foreigners. Two cases were settled out of court after submission to the commission. Thirteen cases concerned Soviet salvors and Soviet vessels carrying cargo insured with "Gostrakh" (the U.S.S.R. government transport insurance agency), twelve of which resulted in awards of £77,105 (about \$277,953). One case was dismissed. In sixteen cases, in which neither vessels nor their cargoes were insured, the awards totaled £17,449 (about \$85,521). Only two appeals went to the Supreme Court. They were both dismissed and the decision of the commission was upheld.

The work of the commission is carried out by highly qualified lawyers, and it is reported that the parties concerned in disputes have been satisfied with their awards.

There are, however, certain conditions which may affect trade adversely or favorably. What these are is set forth in the next chapter.



5

Conditions Affecting Russian Trade

A complete knowledge of the methods of obtaining business from the Union of Soviet Socialist Republics is of little avail if any of the obstacles to trade interfere. The conditions that affect Soviet trade with foreign countries are mainly the attitude of foreign nations as expressed in their press and in their dealings with the U.S.S.R.; trade treaties, private and government credits and loans, the balance of payments, interest rates and prices, and the Soviet tariff.

THE TARIFF

With Western powers the tariff plays a minor role as a deterrent to trade. The reason the tariff plays a minor role is that the Soviet import tariff does not always affect the quantity of imports, nor does consumer demand affect it. Imports, from Western countries in particular, are determined by the State Plan prepared in accordance with the national economy as a whole. The imports are based on a definite schedule, and import licenses are granted accordingly. The export tariff applies to very few commodities. They are mainly horses, camels, thoroughbred sheep, processed furs, and antiques.

The import tariff comes into play when small quantities of goods are brought in without a license, or in the trade with certain countries on Russia's borders. With these coun-

tries trade has at times been free and unlicensed, and preferential tariffs exist on their behalf in the same way as British preferential tariffs are granted to the Dominions. The Soviet tariff can interfere with trade when used as a means of quickly halting trade with a country considered undesirable or as an excuse for canceling an order.

The import tariff is low or nonexistent for goods which the country needs. Certain machines, which are absolutely necessary, are on the free list. The tariff, therefore, changes with the requirements of the country. Changes have been effected in 1922, 1924, 1926, 1928, and 1930. The presently existing administration of the customhouses and tariffs is based on the 1930 plan. The tariff now covers 122 articles and contains 154 rates of duty, in contrast with the 1,000 rates of duty that existed before 1930.

At present the customs duties are fixed primarily according to groups of commodities, per unit and ad valorem, rather than by weight as before 1930. The duties depend also on the trade and political relations between the Soviet Union and the countries concerned. There are special tariffs for trade with countries with whom the U.S.S.R. has entered into commercial agreements. Germany is the only country of the Western powers which, in addition to commercial and financial agreements, signed a tariff agreement in 1932. By this tariff accord, German duties on many Soviet commodities were lowered. In Article VII of the Master Lend-Lease Agreement, signed by the Soviet Union on June 11, 1942, it was agreed to eliminate discrimination in international trade and to reduce tariffs and other trade barriers.

The tariff depends not only on the country from which the goods originate, but varies according to the border over which they enter. There are different tariffs applied to goods

coming over (a) the Western European frontier, (b) the Murmansk and White Sea ports, (c) the Far Eastern frontiers, and (d) the Caspian and Asiatic land frontiers.

In tsarist Russia the custom of collecting tariffs for goods in transit was established, and the plan was adopted by the Soviet Union. Transit has been specifically dealt with in various early Soviet treaties with bordering Asiatic countries. Contrary to tsarist Russian practice, however, the Soviet Union granted to the bordering Asiatic countries the right of free transit to Western Europe. In 1928 the policy was established that Asiatic countries, whether on the dispatching or the receiving end, might send goods free through the U.S.S.R. if the goods originated in a country which had concluded a commercial treaty with the U.S.S.R. There were excluded, however, from free transit privileges cotton goods, sugar, soap, and many European manufactured goods in order to protect Russian trade with the East in these commodities. China and Belgium were adversely affected by the ruling requiring commercial treaties, for they were trading with Iran and had no commercial agreements with the U.S.S.R. It was not until 1935 that Belgium entered into a trading agreement with Russia.

In order to befriend Turkey, whose history of political suspicion of Russia dated back many decades, the Soviet Union in successive decrees granted to Turkey the same tariff, transit, and other concessions it gave to other Eastern powers.

Trade with the Eastern countries was always less hampered by formalities and restrictions, and therefore the tariff played a more important part than it did with Western countries. Soviet trade with Afghanistan was not subject to any restrictions as long as the "net balance" principle prevailed. Net balance signifies that a balance of sales and purchases exist

between two countries. Afghanistan imports are taxed at the minimum rate if at all. The Soviet government has even removed the import tax on wool (the largest item in Afghanistan exports to the U.S.S.R.). The Afghanistan government, however, did not grant any reciprocal concessions.

The removal or reduction of the tariff on behalf of Eastern countries and the reduction in tariffs on behalf of countries whose trade was favored because of commercial treaties or otherwise, had an adverse effect on business with countries which did not have these privileges and which sold competing commodities. Even though the balance of trade with France was favorable, the Soviet Union on several occasions subjected shipments from France to maximum duties. In connection with American trade, which consisted largely of heavy equipment, tools and machinery, the tariff has not been a deterring factor.

TRADE AGREEMENTS, POLITICS, AND PUBLIC OPINION

At various times since the existence of the Soviet Union, its trade with the United States and other countries was affected by complete or partial blockade, by subtle forms of credit blockade, gold blockade, high prices, unfavorable trade balances, and other unfavorable conditions. In many countries, during certain years and in varying degrees, there were aroused scares of "dumping," of forced labor, the imminent collapse and bankruptcy of the whole Soviet system, the boycott of certain classes of Russian products, and the subjection of certain imports or exports to licenses or special conditions.

UNITED STATES

Trade relations with the United States were hampered in addition by the absence of any trade agreement, of govern-

ment credits, of loans, the difficulty in obtaining bank or private credits, and the excessive interest rates charged for discounting Soviet acceptances. It was not until 1935 that the United States government entered into any written agreement respecting trade, and this was in the form of an exchange of notes renewed annually until 1942.

Our "cold war" in 1946-1948 bears some similarities to the periods 1920-1922 and 1930-1933. In 1920 the excuse for our attitude was our objection to communism in Russia, today we fear the spread of communism in Europe and Asia. For some quotations and press comments see Appendix 2.

In addition to our joining in the inter-Allied intervention in 1918 to 1920, Attorney General Palmer in 1920 ordered that all Communist headquarters in the United States be raided. On January 24, 1921, the Senate Foreign Relations Committee issued the following memorandum:

The present policy with respect to the regulation of trade relations with Soviet Russia should be maintained as being in complete harmony with American ideals and the best traditions of our dealings with other nations.

This was followed on June 21 of the same year by deportation orders on behalf of C. A. K. Martens, sent to the United States in 1919 by the RSFSR (as the U.S.S.R. was then called) to place orders for \$200 million.

Though license restrictions on all commodities, except war materials, destined to the Soviet Union were removed July, 1920, yet the United States Treasury refused to accept gold from Bolshevik Russia until 1935,¹ and the policy of the State Department at that time was that

individuals or corporations availing themselves of the present opportunity to trade with Russia, will do so on their own responsibility and at their own risk.

¹ With one exception, the acceptance of \$10 million for relief supplies furnished by the American Relief Administration in 1921.

We ignored the declaration of an official of the Soviet Union at a German-Soviet conference in 1922—which has been Soviet policy ever since—that

if Soviet trade is subjected anywhere to special restrictions, the Soviet Union will not hesitate to apply counter measures and reply to such restrictions by corresponding ones.

President Coolidge, in his address to Congress of December 6, 1923, maintained that the United States would follow a noninterference policy. And American businessmen, who were realistic, did not hesitate to trade with Russia on their own risk as best they could, making use of a black market for discounting acceptances when necessary. By 1930 the United States ranked first in trade with Russia, even above Germany and England. The same year, however, the policy changed from noninterference to restriction.

In 1930 we prevented Mr. Kalmanovich, the then Soviet vice-commissar for agriculture, to place large orders for agricultural machinery. He was detained for several months on Ellis Island. The same year our Treasury instituted an anti-dumping duty on Soviet matches, which then constituted a considerable item in American-Russian trade; for a time a bond was required for the importation of Soviet asbestos, and the Treasury required proof that shipments of lumber and plywood from northern Russia were not the product of Soviet forced labor. The Soviet Union was then accused of "dumping" lumber. The Department of Agriculture declined to accept Soviet certificates of inspection on sausage casings, upon the importation of which American importers had depended for many years. An extra duty was levied on Russian anthracite in 1932. Added to these impediments to trade were the impossibility of obtaining consular invoices for Russian cargoes, high port charges and high insurance rates, and the difficulty of securing certifications of trade and bank-

ing documents. The result was a marked decline in trade.

The same year the *British-Russian Gazette* announced that a certain prominent statesman was traveling all over the United States to urge Americans to join "their———cousins" abroad in a general boycott of the Soviet Union. The same statesman prides himself on having started the present-day American anti-Soviet campaign in his 1946 Missouri address.

Peter A. Bogdanoff, then chairman of the Board of Directors, Amtorg Trading Corporation, in a speech at the luncheon of the American-Russian Chamber of Commerce on January 28, 1932, said:

I wish to say most emphatically that the recent decline in Soviet-American trade was not—as many are ready to assume—an inevitable result of the world-wide economic depression. It is not necessary to await a general revival in order to restore the expansion of that trade which appeared so promising in 1929 and 1930.

And in answer to the rumors that the Soviet Union was becoming self-sufficient and would reduce her foreign trade, former Commissar Litvinov in his speech before the World Economic Conference in 1933 said:

. . . my government has no intention of cutting itself off from the entire world by economic barriers and retiring into its own economic shell. In distinction from other countries, we, with a great increase of our own output, do not aspire to autarchy and do not resist an advantageous import of foreign goods.

American businessmen did not feel the impact of the loss in trade with the Soviet Union in 1920 to 1922, because our pre-World War I trade had averaged between 1909 and 1913 only 0.9 per cent of our exports. But it is difficult to appraise the actual amount of damage suffered during the years 1930 to 1933 by American business, for the United

States was in the grip of a depression and needed all the business she could get. Besides, by 1930 American exports to the Soviet Union had increased to \$113,400,000. They dropped to \$103,300,000 in 1931; in 1932 they fell to \$12,641,000 and in 1933 to \$8,997,000. In other words, the Soviet Union reduced its purchases in the United States between 1930 and 1933 by around 90 per cent. At the same time there was a marked increase in Russian trade with other countries. Between 1930 and 1932 German exports increased 30 per cent in volume, and British exports 12.5 per cent. These increases were in the field of machinery and metal products, which had previously been purchased in the United States.

Even Roosevelt's recognition of the Soviet Union and his executive order to remove discriminations imposed on Russian imports did not usher in satisfactory trade relations. For a time Russia could not sell manganese to the United States because this country reduced the tariff 50 per cent for other nations with whom the United States had signed trade agreements on the most-favored-nation principle; gold shipments were still not acceptable until the exchange of notes between Ambassador Bullitt and Commissar Litvinov on July 13, 1935. The exchange of notes was renewed annually until 1942, the unconditional most-favored-nation clause being first included in 1937 and repeated subsequently.

The notes extended to goods of the Soviet Union all tariff concessions granted under reciprocal trade agreements with other foreign countries, with the exception of Cuba. In return, the Soviet Union undertook to increase substantially the amount of purchases made in the United States. The U.S.S.R. gave assurances that it would purchase American goods to the value of \$30 million in 1936. Actually the purchases amounted to \$36 million. In 1937 \$40 million was

pledged, and the Soviet Union bought \$42 million worth. In 1938, when United States exports were \$69,600,000, they still did not reach the peak of 1930. The reason was probably the fact that when you discourage a customer and he finds another supplier, who offers as good or better conditions of sale, it is not easy to get him back.

The United States did not recoup the Soviet market until the war years, for between 1939 and 1941 she refused to grant certain export licenses because it was feared the Soviet Union might be making the purchases on behalf of Germany. This was the period of the Russo-German Friendship Pact and the Russo-Finnish War. The extent of American co-operation in World War II is well known. Sales to Russia in 1944 alone were \$3,470,600,000 and totaled over \$8 billion for the years 1941 through 1945. These purchases were based on the exchange of telegrams between President Roosevelt and Premier Stalin, October 30, 1941, and November 4, 1941, respectively, and on the Master Lend-Lease Agreement between the United States government and the Soviet Union, June 11, 1942. The latter superseded the former exchange of telegrams.

In 1946, a transition year, after subtracting re-exports, UNRRA and Lend-Lease shipments, the Russian purchases totaled \$53,600,000. This is less than half of what they were in the highest prewar peacetime year, 1930. In 1947, however, after subtracting UNRRA and Lend-Lease, the purchases were \$101,064,262. And including UNRRA and Lend-Lease the total was \$149,504,067. American sales would have been much greater had it not been for the 1947 campaign to restrict trade with the Soviet Union.

In spite of excellent co-operation between the United States and the Soviet government during World War II, early in January, 1947, Congress held up the shipment of \$17 mil-

lion worth of machinery required for peacetime operation, which was part of a Lend-Lease order. The shipment of \$20 million worth of equipment purchased by the Soviet Union from the War Assets Administration was blocked on December 9, 1947, by Congress. The order comprised various types of machinery, sawmill equipment, Diesel engines, steel, pipe, and so on. At this writing the shipments are still frozen. Several shipments have been seized by customs authorities in 1948.

The attitudes created in the minds of businessmen and bankers by the present press and radio campaigns, by the loyalty checks and the witch hunting, have been factors in preventing businessmen from accepting Soviet orders, let alone seeking them.

Another factor, which is hampering American-Soviet trade since the close of hostilities, is the export control provision in the Act to Expedite the Strengthening of National Defense, approved July 2, 1940 (54 Stat. 714), amended for licensing privileges by Title III of the Second War Powers Act, approved March 27, 1942, and extended by the Second Decontrol Act of 1947, approved July 15, 1947 (Public Law 188, Chap. 248).² These laws give power to the Export Supply Branch, Office of International Trade of the United States Department of Commerce,³ to control exports from the United States. Countries buying items on the controlled, or positive, list must file an affidavit stating why they need

² This act provides that the authority for export controls, conferred July 2, 1940, terminated February 29, 1948. This date was extended by Public Law 427, 80th Congress, Chapter 85, 2nd Session, H. R. 5391.

³ Jurisdiction for the shipment of arms and ammunition is in the Department of State. In connection with all commodities, the Atomic Energy Commission, the Departments of State, War, Navy and Interior, and other agencies are in a position to make recommendations regarding the control or decontrol of exports by the Export Supply Branch of the Department of Commerce.

the particular commodities, what is their own production, how much is required, and what other sources of supply they have.

The Russians consider this affidavit unnecessary. They say they do not request such an affidavit from us for our purchases. And they have enacted a law to prevent the furnishing of such information.

The Council of Foreign Ministers of the U.S.S.R. on July 9, 1947, approved a decree making it a traitorous act to furnish certain data. This decree, "On the Responsibility for Disclosing State Secrets and for Mislaying Documents containing State Secrets," has been interpreted by Moscow newspapers to apply to citizens who reveal information on natural resources, scientific inventions, foreign trade and foreign relations.

It is reported that E. C. Ropes, former chief of the Russian Section, Department of Commerce, on several occasions urged I. A. Eremin, chairman of the Board of Amtorg, to prepare some sort of affidavit to meet United States requirements, and he assured him it would most likely be accepted. But Mr. Eremin refused. He said that Russia does not ask us such questions, and it is against Russian policy to disclose the information we desire.

Amtorg places the responsibility for obtaining the export license on the firm obtaining the order, and stipulates in the contracts that if an export license cannot be obtained when the goods are ready for shipment the contract may be considered void.

A large order for tin plate, the type used in making tin cans, was canceled by the government. The same fate befell other orders. Petroleum and other products have been placed on the positive list, that is, the list of products subject to special licenses. There is no assurance by the Export Supply

Branch as to which items will or will not be on the positive list at a particular time. Fewer licenses were granted in 1948 than in 1947.

Many commodities on the positive list are licensed according to quotas. These are established in accordance with domestic requirements and the needs of the various countries desirous of importing particular commodities, based on the essential data we consider necessary. After a general allocation is made to a country, the department cannot give assurances that licenses will be issued. The determination is based on its interpretation of the furtherance of "national interest" as provided in the law. Since Russia does not furnish the required data, no quotas are allowed for the Soviet Union.

Although the United States was not a signatory to a formal trade agreement with the Soviet Union, a number of countries profited handsomely by their agreements. Yet at one time or another these countries suffered interferences in their trade through political differences. Among the major countries that signed formal agreements were the United Kingdom and Germany.

UNITED KINGDOM

The United Kingdom entered into trade agreements with the Soviet Union in 1921, 1930, 1934, 1941, and 1947. Negotiations for the first agreement began even before a formal declaration of peace, when England, without notifying the United States, opened the blockade against Russia in 1919. The agreement was signed March 16, 1921, for one year. Actually the same agreement served trading purposes until 1930.

The 1921 agreement was the first trade agreement signed by the Soviet Union with a major power. It granted *de facto*

recognition and most-favored-nation treatment politically and economically. That it aided trade relations may be noted from the fact that British exports in the year 1922-1923 were about nine times greater than American exports for that year.

For a short time in 1923 British trade was interrupted by the Curzon Ultimatum of May 8, 1923, which demanded from the Soviet Union payment for prewar debts, compensation for detention of three British trawlers which fished within the illegal 3-mile limit of Russian shores, and which reproached Russia for her policy in the East, for persecuting religion, meddling in the Third International, and so on. The reply of the Soviet Union was promptly accepted and trade resumed its former proportions.

The MacDonald government later the same year commenced negotiations for a new treaty and granted *de jure* recognition on February 2, 1924. The new trade agreement, which was ready for signature in 1924, specified the types of commodities to be traded, granted Britain fishery privileges on the north coast of European Russia, granted a loan to Russia, and recognized Russian prewar debts. After the fall of the MacDonald regime, the Baldwin Cabinet refused to ratify the agreement. According to the *British-Russian Gazette* of December, 1925, England realized that she "backed the wrong horse" by refusing to ratify the 1924 agreement.

Trade continued on the basis of the general agreement of 1921, but suffered a serious setback in 1927 when British police searched Arcos, Ltd., a Russian corporation operating under British law, which was responsible for Russian sales and purchases. Diplomatic and trading officials were recalled by England and the Soviet Union.

The Soviet Union, in addition, enacted a decree on May 17, 1927, that foreign trade must be carried on only with

countries which offer normal diplomatic relations with the Soviet Union and guarantee normal conditions for commercial relations to Soviet trading organizations. A note of the same date from the Commissar for Foreign Affairs, stated:

The raid could have had only one purpose, to prejudice Soviet interests connected with the work of Arcos, by compromising the latter and creating an atmosphere of mistrust and hostility. From this point of view the Soviet Government considered itself justified in protesting against the raid on Arcos.

With the return of the MacDonald Cabinet in May, 1929, discussions were opened for a new treaty, and export trade that year totaled almost \$40 million.

The new agreement, signed in April, 1930, dealt mainly with mutual grants of most-favored-nation treatment, excluding Great Britain's dominion preferences and the preferences granted the border states by Soviet Russia. From then on the trade delegation was considered a part of the Russian Embassy. No mention was made of prewar debts or a loan to the Soviet Union. But the previous year an export credit guarantee plan had been put into operation for the encouragement of exports to Russia.

As a result of the export credit plan and the 1930 agreement, exports increased almost 50 per cent and, according to Lord Snowden, the British engineering industry was 80 per cent occupied with Soviet orders between 1930 and 1932. The chartering of British ships by the U.S.S.R. also became a lucrative business. The first half of 1932 the Soviet Union paid to British shipowners \$1,753,000 for freight. These conditions obtained only till the fall of 1932.

To coincide with incidents in the United States, on October 17, 1932, England indicated she was giving Russia six months' notice of revocation of the Anglo-Soviet Trade Agreement; on the following day, the Import Prohibition

Act was put into effect. England imposed an embargo on Soviet butter, matches, timber, grains, cotton and by-products, petroleum, oils, wood, timber and by-products or manufactures thereof, and so on. It is reported that discourteous language was used by British government representatives in Moscow and London to Soviet officials. The British refrained from attending Soviet functions and from inviting the Soviet ambassador to Foreign Office receptions in London.

The anti-Soviet campaign reached its height in March and April, 1933, when the Russians, fearing that British engineers might despoil their plants, arrested British representatives of the Metropolitan-Vickers firm. Their trial took place immediately and they were ordered to return home.

When the British government officially announced the embargo, April 17, 1933, the Soviet government instituted a series of reprisals as follows:

1. Soviet foreign trade organizations were prohibited from placing orders or making purchases in Great Britain.
2. The chartering of British ships was prohibited.
3. British goods in transit through the U.S.S.R. was restricted.
4. Maximum reduction in the use of British ports and depots for Soviet transit and re-export trade was adopted.

A decree of the Commissar for Water Transport ordered all harbor masters to collect the maximum harbor dues, and so on, from ships sailing under the British flag to Soviet ports, instead of allowing them the favored scale provided in the 1930 Anglo-Soviet Trade Agreement. As a result, the chartering of British ships and the work connected with it was transferred from London to other markets, mainly Germany, Italy, Norway, Greece, and Holland.

The embargo was lifted a few months later, July 1, 1933, when negotiations for a new trade agreement were resumed.

The new agreement was signed February 16, 1934. Although the primary purpose of the new trade agreement was to equalize the balance of payments between the two countries over a period of years, it was the most comprehensive and complete of all the Anglo-Russian agreements. And until the signing of the agreements of December 27, 1947, it was the only peacetime trade agreement in force. A summary of its contents is contained in Appendix 4, and the financial schedule attached to it is in Appendix 5.

This agreement was supplemented by credit arrangements. In 1936 England accorded more favorable credit terms to the U.S.S.R. and agreed to guarantee the full payment of Soviet notes issued in part payment for goods purchased in England.

Though England is reported to have accused the U.S.S.R. of purchasing food, cotton, rubber, and metals for Germany in 1939, an agreement was signed in October, 1939, for the supply of rubber and tin by England in exchange for Russian timber. War broke out between Germany and the U.S.S.R. on June 22, 1941, and in August of the same year there were signed two agreements: (1) the Treaty for an Alliance in the War Against Hitlerite Germany and Her Associates in Europe and Providing also for Collaboration and Mutual Assistance Thereafter; (2) a trade agreement (see Appendix 6). The latter is generally referred to as the Anglo-Russian Civil Supplies Agreement. It provided for an exchange of supplies other than war materials which were covered in a special Lend-Lease agreement.

In the Civil Supplies Agreement, the United Kingdom undertook to sell to Russia about \$560 million in civilian goods. By 1946 Russia had already paid for about \$400 million worth under this agreement.

In accordance with rights in the 1934 treaty, Russia protested against the exorbitant prices charged by the British,

but only asked for a reduction on the balance of the goods still to be paid for, about \$160 million, of which \$120 million had already been delivered. On September 10, 1946, the Soviet Union came to a compromise understanding with Britain to obtain a 13 per cent reduction from the estimated manufacturers' prices on the outstanding \$160 million balance. In return for this concession, the Soviet government was to make available, in the fall of 1946, 25,000 standards of lumber (49,500,000 board feet) for shipment to the United Kingdom and to conclude a contract between the Soviet Timber Exporting Organization and the British Timber Control.

Mr. Klentson, head of the Soviet trade delegation in London, indicated that this agreement marked a settlement of outstanding wartime accounts rather than a new agreement, and "it clears the way for further trade negotiations which will be aimed at restoring normal trade channels." The London *Financial Times*, on September 11, 1946, stated:

The importance of Russia, both as a market and as a source of raw material supplies, is duly appreciated by British manufacturers and merchants. Any efforts to remove obstacles in the way of trading with Russia, on a substantial scale, are bound to be well received in the City.

Trade negotiations, which continued through 1946 and 1947, were concluded with the signing of Trade and Payments Agreements, December 27, 1947. These, however, appear to supplement the 1934 Trade Treaty, for they do not contain the usual political provisions. They consist of a Protocol, an Annex, 4 parts, namely short-term, long-term, financial, and transport arrangements, and a Payments Agreement based on an exchange of notes between the British ambassador to the U.S.S.R., Sir Maurice Peterson, and the

Minister for Foreign Affairs of the Soviet Union, A. Mikoyan (see Appendix 8).

The Protocol states that the purposes of the agreements are to satisfy current needs of both countries and to develop Anglo-Soviet trade on a long-term basis.

The short-term arrangements (Part A) provide that Russia is to furnish between February and September 30, 1948, 450,000 metric tons barley, 200,000 metric tons maize, and 100,000 metric tons oats in exchange for 35,000 English long tons of light rails with fish plates, bolts and nuts for narrow-gauge railways; assurances are given by the United Kingdom that arrangements will be concluded to supply the Soviet Union with tin, wool, rubber, aluminum, cocoa beans, coffee, and other goods to be agreed upon. In addition to the railway stock, Schedules I and II of the Protocol set forth a list of equipment to be supplied to the Soviet Union by the United Kingdom, the dates of delivery, and so on. These Schedules are in Appendix 7.

The long-term arrangements (Part B) mention: the need for balancing accounts, that is, exports with imports; that representatives of both nations will meet in May, 1948, and at least annually thereafter, alternately in London and Moscow, "to review the Payments position between the two countries," to prepare a balanced program of shipments including further supplies of commodities mentioned in Schedules I and II (Appendix 7), in addition to other commodities mentioned in the Protocol, and the furnishing of wheat, pulses, pit props, cellulose and canned goods by the Soviet Union, in exchange for oil-well tubes, tinplate, and other goods to be agreed upon from the United Kingdom. The representatives of the two governments during their conferences are also to make recommendations for the improve-

ment, development, and widening of the bases of trade between the two countries.

The financial arrangements (Part C) make two major concessions. With respect to the payments still due on supplies already received and to be received by the Soviet Union under the Civil Supplies Agreement of 1941, a reduction is made in the interest rate on unpaid balances from 3 per cent to $\frac{1}{2}$ of 1 per cent, and the payments are to be spread out for 15 years from May 1, 1947. The second concession relates to Lend-Lease, and is as follows:

The Government of the United Kingdom agrees to waive the claims for the repayment of the costs of all supplies and services to the Government of the Union of Soviet Socialist Republics during World War II, other than those arising out of Ships' Expenses and Freights Agreement, as set out in the Exchange of Letters of 22nd June, 1942, between the British Embassy in the Union of Soviet Socialist Republics and the People's Commissariat for Foreign Trade in the Union of Soviet Socialist Republics.

The transport arrangements (Part D) provide for co-operation in the development of shipping trade between the two countries. And for the fostering of this co-operation also, representatives of both countries are to meet at least once a year, alternately in London and Moscow.

The exchange of notes (Appendix 8) respecting payments, relate to the use of the pound sterling as the medium of exchange and the nature of the bank accounts.

GERMANY

Germany's first trade agreement with the Soviet Union was signed on May 6, 1921, a few months after the British agreement. German experience with trade treaties, however, was somewhat different from that of England. Between 1933 and

1939, while Hitler was in power, all the trade advantages offered were of little avail. But certain political influences before his advent had brought Russia closer to Germany than to any other world power and had helped to increase Germany's trade with the Soviet Union. Between 1925 and 1934 Germany's trade with Russia was greater than America's and England's.

Germany's ability to deal with the Russians was superior to that of any other nation, for her experience dated back many years. She was so successful in trading with Russia between 1870 and 1914 that her very capable and efficient businessmen, actively backed by the German government, succeeded in re-establishing that trade after World War I. She was the first to brush aside legal and moral misgivings completely in order to stimulate trade with the U.S.S.R. She granted *de jure* recognition, long-term credits, and state guarantees before England did.

The agreement of 1921, dealing mainly with the entrance of trading representatives and the privileges to be accorded them, the granting of visas, reception, legalization and certification of documents, was followed by another agreement, April 16, 1922, coincident with the Rapallo Treaty granting *de jure* recognition. In it most-favored-nation treatment was provided. And in 1922-23 Germany's trade with Russia surpassed England's, and was fourteen times greater than that of the United States.

Trade was progressing well in 1924, when the German police raided the headquarters of Soviet trade representatives in Berlin and the branches in other German cities. The cause was attributed to Russian Communists assisting German colleagues to plan a revolution. The result was that German trade fell below British trade in 1924-25.

Germany was quick to notice the effect of her aggressive

action and hastened to commence negotiations for a new trade treaty. These began within six months after the raid and resulted in the detailed agreement of October 12, 1925, which formed the basis for trade relations between Germany and the Soviet Union up to World War II. The treaty was amended by protocols in 1928 and 1929, and by financial agreements from time to time.

Mutual most-favored-nation treatment was provided with certain exceptions: the privileges Germany was obliged to grant the Allied countries in accordance with the Versailles Treaty and the privileges the U.S.S.R. granted to its western border states and its eastern neighbors. Extraterritoriality rights were granted for all the Soviet trade delegation in Germany. Special regulations were included to facilitate the export of livestock and animal products from the U.S.S.R. to Germany.

The 1925 agreement covered a wider range of economic and legal provisions than any agreement concluded by either Germany or the U.S.S.R. with each other or with any third country. In addition to general stipulations and economic provisions, it covered transport by rail or steamship, customs tariffs, provided for a commercial court of arbitration, for professional legal protection, and the continuance of certain former agreements relating to wireless telegraphy, below-sea telegraph cables, port duties, and taxes of hospital ships; there were special provisions regarding trade in motor vehicles, rules concerning collision at sea as well as aid and salvage during distress, and so on.

The 1925 agreement gave to German traders the stability and assurance that was formerly lacking. Upon its conclusion, German interests were granted a generous share of concessions and the development of consignment agreements as desired.

German exports to the Soviet Union increased between the years 1924-25 and 1925-26, 60 per cent, and imports for the same period increased almost 25 per cent.

The fear of consequences arising from the Treaty of Locarno, 1925, which gave permanence to Germany's western borders and the right to seek a peaceful modification of her eastern frontiers, and the events in China, which threatened to lead to international complications, induced the Soviet government to cultivate friendship with Germany to as great an extent as possible and also, by the greatest possible number of guarantees, to try to assure peace on the western and southern Soviet frontiers. From 1925 onward, therefore, the U.S.S.R. concluded neutrality treaties with as many of its border countries as possible.⁴ The neutrality treaty with Germany of April 24, 1926, also contained provisions concerning credits. These will be referred to in the section "Credits."

Trading was further facilitated by a protocol signed December 21, 1928, which provided that the German Embassy in Moscow was to enjoy greater freedom than any other embassy,⁵ German traders were to be facilitated with respect to entry, departure and sojourn, tax reduction, customs duties and procedure, with respect to protection of industrial property, commercial arbitration, and in certain practical questions affecting economic relations.

A special arbitration convention followed on January 25, 1929, which was extended every two years.

Thousands of German engineers and workmen secured important posts in Soviet industry. Germany equipped Soviet

⁴ Russia's military alliances in 1948 bear a resemblance to those of 1932-1935 made necessary by the cold war of the Western Powers in 1931-1933, and the actions of the Hitler regime in 1933 and subsequently.

⁵ The German Embassy, which, like others, had had to address complaints to the Soviet Foreign Commissariat, might then communicate directly with all commissariats.

industry with machinery, and German military circles aimed at establishing in Russia headquarters for the manufacture of all military requirements, particularly airplanes and chemical products.

The *Deutsche Allgemeine Zeitung* summed up the effects of these agreements in the following words:

If future Soviet practice corresponds to the concessions made, the conditions for German trade with Russia can now be regarded as legally assured and the main difficulties as removed.

Germany took first place in Russia's trade until the advent of Hitler, and the trade reached its highest level in 1931—\$446,464,200. When Hitler came to power he made it plain that he was seeking territory in Southeastern and Eastern Europe as an outlet for German expansion. He gave increased support to separatist movements and to the Ukrainians. Violent attacks against Russia appeared in the German press and German leaders declared openly that the Soviet Union must be destroyed in order to facilitate German expansion eastward as set forth in *Mein Kampf*.

Soviet news correspondents were not invited to the opening of the Reichstag on March 19, 1933, and two Russian journalists were arrested in Leipzig in October of that year. Press telegrams from the Runag News Agency in Switzerland to a Soviet paper were sometimes delayed as much as eight days. Formerly they had been delivered in a few hours. Russian press correspondents in Berlin and Leipzig had their apartments searched. In addition, arrests and other discourtesies were shown Soviet representatives. There were nine incidents in eight months. The Soviet ambassador in Berlin, on April 5 and 14, 1933, lodged protests with the German minister for foreign affairs against acts of insolence by the German authorities upon Derop, a company which handled the sale of Soviet oil products. The notes indicated

that the German government had no legal basis for such action.

The increasing strength of the German National Socialist movement, violently hostile to Marxism and still more to bolshevism, accentuated the German government's attitude toward the Soviet Union. Early in 1935, Rosenberg said that the dismemberment of the U.S.S.R. was one of the main ultimate aims of Nazi Germany. Two years earlier Commissar Litvinov had said:

The world is aware that we are capable of keeping on good terms with capitalist countries, under whatever political regime they may be. . . . We have not the slightest intention to interfere with the sovereignty or rights of Germany. We should like Germany to be able to say the same to us, and we should like actions of Germany to be in accordance with German declarations.

When the Soviet Union joined the League of Nations in the hope of maintaining peace, it unequivocally condemned Germany's military reoccupation of the Rhineland, and was ready to join in any measures proposed by the Council or the Locarno powers. It suggested to certain powers an Eastern Pact of Mutual Assistance in 1935, but Germany, Japan, and Poland refused. Hitler also refused to sign a Baltic pact to guarantee the status quo of the Baltic countries. Negotiations were then entered into by Russia for mutual assistance pacts with France and Czechoslovakia, and the agreements were signed in 1935.

The mutual assistance agreements of 1935 caused indignation in Germany. Russia then imposed restrictions on the import of German goods, although trade both ways had been declining since 1933. Terms and conditions for business transactions, especially with respect to the delivery of German goods, were a subject of long negotiation. With respect thereto a special agreement was signed March 20, 1935.

The main item of export to the U.S.S.R. was German machinery. Its sale fell from \$9,155,370 in 1934 to \$3,570,594 in 1935. There were similar decreases in pipes, wrought iron, tin and wire, railway materials, and so on. Electrical machinery, electrotechnical products, chemical and pharmaceutical products joined in the decline. Total German exports to the Soviet Union, which had been \$342,771,300 in 1931 and \$122,464,300 in 1933, declined in 1935 to \$17,926,500. In 1935 and 1936 imports were much greater than exports.

Hitler did not wish the political situation to affect trade. Under his regime the Berlin Treaty was renewed on May 5, 1933, and the Soviet Union continued to receive further credits from the German banks as a result of successive financial agreements. There was some revival of trade in 1936, but it fell again in 1937, and reached its lowest ebb in 1938, when exports were \$12,642,900 and imports \$16,605,600.

To aid in stimulating trade, Germany set up an organization to co-ordinate the efforts of scattered German industrialists, the Russian Committee for German Trade (*Russland-Ausschuss der Deutschen Wirtschaft*), which was closely associated with the German Association of Industrialists (*Reichsgruppe der Deutschen Industrien*). This committee acted in an advisory capacity in all important steps taken by the German government. There were other special committees for finance, such as the granting of government guarantees, discounting acceptances, and other formalities. These will be referred to under "Credits."

All these efforts were of little avail during the strained political situation. For Russia, fearing that the German engineers in the U.S.S.R. might become exponents of a policy hostile to the Soviet Union, canceled all her contracts and considerably weakened the favorable position that

Germany had acquired through the Berlin Treaty of 1925. Investigation into the activities of the engineers who remained led to the purge of 1936. In November of that year several German and Soviet citizens were arrested by the Russians and charged with plotting fascism. Mr. Stockling, a German engineer, and eight Soviet nationals were accused of organized sabotage at Novosibirsk and were sentenced to death. Stockling's death sentence was changed to penal servitude for ten years upon the intercession of the German government.

The continued attacks on Soviet Russia in the German press were met by counterattacks in the Soviet press. These continued almost to the time of the 1939 Friendship Pact. Russia, unable to get together with England and France for a military alliance after the Munich Pact, signed the Friendship Pact with Germany on September 28, 1939, for one year. In 1940 the pact was renewed and remained in force until June 22, 1941, when Germany attacked Russia.

Because of the terms of the Potsdam Agreement of 1945, Germany's economy will be tied up with that of the Soviet Union for a long time. Russia has taken possession of approximately two hundred German factories in her zone. Ten syndicates have been formed to run these plants, which are directed by a Soviet stock corporation, called Sovietische A.G.

The Potsdam Agreement also authorized the U.S.S.R. to remove capital assets from its zone and to receive 25 per cent of the capital equipment removed from the western zones. Of the latter 40 per cent was to be given to the U.S.S.R. without charge, and for 60 per cent the Soviet Union was to furnish raw materials to the western zones. The total of the reparations the Soviet Union is to obtain has not yet been settled. In the meantime the Soviet Union has been instru-

mental in her zone's signing a number of trade agreements with various countries of Europe as well as with itself.

In addition to the trade agreements signed with England and Germany, the Soviet Union, both before World War II and since then, signed trade agreements with as many countries as possible. Beginning in 1920 and in years following, trade agreements were signed with a number of border countries. They included Estonia, Latvia, Lithuania, which have since World War II been annexed; with Poland and Finland; with Outer Mongolia, Tana Tuva, and Sinkiang, all three now virtually autonomous republics of the U.S.S.R.; with Afghanistan (also in 1927), Turkey (also in 1927, 1931, 1932, 1936, 1937), Iran (also in 1924, 1927, 1931, 1935); with China (in 1924 and 1929), and with Japan (1925, 1935, and a number of fishing agreements until 1941). In the Near East an agreement was signed with Yemen in 1928 for ten years, and with Syria in 1933. European countries, besides England and Germany, which availed themselves of trade agreements with the U.S.S.R. were Belgium (1935), Czechoslovakia (1935), France (1924, 1934, 1936, and annually until World War II), Hungary (1935), Italy (1924, 1930, 1931, 1933), Norway (1925), Sweden (1924, 1927, 1934). Russian trade expansion interfered little with American markets. It affected mainly British and German markets.

TRADE AGREEMENTS SINCE WORLD WAR II

Soviet trade agreements since World War II provide mainly for exchanges of commodities. In several instances the Soviet Union grants credits to Balkan or neighboring countries, as was her policy in the Middle East in prewar days.

During 1946 trade agreements were signed with *Argentina*, *Uruguay*, and *Venezuela* for an exchange of commodities.

Previously Russia used to buy Argentine products from England. Venezuela's contract deals mainly with the sale of Russian newsprint. Uruguay signed a more formal agreement, August 9, 1946—a Friendship and Navigation Agreement.

Albania signed a trade treaty with the Soviet Union in 1947 in which Soviet Russia granted what is called a "modest" credit. Afghanistan signed a trade agreement around the middle of November, 1947. On January 22, 1948, the signing of a trade agreement with *Belgium, Netherlands and Luxembourg* (Benelux countries) was announced. It is reported to involve the exchange of a large number of commodities.

Goods-exchange agreements were signed by Russia's zone in Germany with the following countries or areas:

British Zone of Germany, December, 1946, and January 18, 1947, Anglo-U.S. Zones of Germany, November 25, 1947

French Zone of Germany, October, 1946

Belgium-Luxembourg, October 6, 1947, a payments agreement, November 10, 1947

Bulgaria, August 16, 1947

Czechoslovakia, March 29, 1947

Denmark, March 1948

Finland, July 25, 1947

Hungary, August 16, 1947 and June 1948

Netherlands, October, 1946, May 23, 1947, February 17, 1948, and June 1948

Norway, June, 1946, February 19, 1947, December 29, 1947

Poland, March 29, 1947, March 15, 1948

Sweden, May 21, 1947, June 23, 1948

Switzerland, August 8, 1946

Yugoslavia, April 10, 1947

Other trade agreements between the Soviet Union and

various countries, about which more facts are available are as follows:

Belgium-Luxembourg Economic Union signed a trade and payments agreement February 18, 1948 for the exchange of commodities during 1948. Belgium is to supply various equipment and machines, non-ferrous metals, and consumer goods. Russia will furnish in return lumber, apatites, manganese ore, furs, and asbestos.

Bulgaria signed a trade agreement with Russia March 14, 1945, a supplementary agreement April 27, 1946, a trade and credit agreement in July, 1947, and another relating to the supply of industrial equipment by Russia, August 23, 1947.

The 1945 agreement specified an exchange of goods amounting to \$36 million; the 1947 agreement, \$87 million. The Bulgarian imports from Russia include metals, petroleum products, cotton, barley, railway cars, trucks, tractors, and other farm machinery, materials for the paper and pulp industries, and other goods. Bulgaria sells Russia tobacco, agricultural products, and products of her mines.

The special 1947 agreement relating to the supply of industrial equipment by the Soviet Union, on credit, deals with machinery and equipment for mineral fertilizer factories, for electro-stations, for plants for the semicoking of coal, and the like.

An agreement signed April 1, 1948 provides for a turnover of goods between the two countries of over \$90 million. In addition to the usual exchange of goods and technical services, the Soviet Union is to aid in locating Bulgarian "underground riches."

Czechoslovakia's first postwar agreement was signed April 12, 1946, for one year. It is called a commercial and financial agreement, and sets forth the bases for trade as did the early

post-World War I German and British agreements. Czechoslovakia obtained from the Soviet Union petroleum products, manganese, iron ore, asbestos, nickel, zinc, cotton, flax, pyrites, rubber, and chemicals in return for rolling-mill products, boots, and textiles. Russia purchased more from Czechoslovakia in 1946 than she sold to her.

The April, 1946, agreement was followed by a trade and payments agreement on July 8, 1946, for two years with provision for renewal, and a trade and shipping agreement on August 17, 1946, for five years with provision for automatic extension. An iron ore agreement was signed January 24, 1947, and in July of the same year another trade treaty for five years was announced. The latter was signed December 12, 1947.

The July, 1946, agreement contained provision for the building of large warehouses on the Soviet-Czech border to facilitate the reloading of freight moving between the two countries. The 1947 five-year agreement was entered into after Czechoslovakia decided to refrain from participating in the Marshall Plan. It is reported to involve an exchange of commodities valued at \$1 billion. It states the types of commodities, the amounts and prices therefor, to be exchanged between 1948 and 1953. Czechoslovakia is to receive in 1948, 400,000 tons of grain, 65,000 tons of fertilizer, 20,000 tons of cotton, and other raw materials. In return, she will furnish rails, locomotives, and other rail equipment, oil pipe, machine tools, beef cattle, sugar, textiles, and machinery.

The iron ore agreement of 1947 sets a definite quota to be imported from the U.S.S.R. at a fixed price. The agreement specifies that the Russian ore must contain 50 per cent iron. Since the price is fixed at world prices, the high quality of the ore makes the cost relatively low. The agreement also

states that the Soviet Union is to provide transport to the Czech border.

Denmark signed a trade and payments agreement with the Soviet Union, July 8, 1946, for two years with automatic extension, and a trade and shipping treaty on August 17, 1946, for five years with automatic renewal. The latter provides for mutual most-favored-nation treatment with respect to taxes and harbor dues. The former relates to an exchange of commodities. Denmark is furnishing Russia butter, bacon, livestock, and certain types of equipment. The quantity of fats and oils is to be increased in proportion to the increase of oilcake for cattle feed provided by the Soviet Union. In addition, the Soviet Union is sending Denmark raw materials in accordance with the terms of the agreement.

Egypt signed a barter agreement on March 3, 1948, which provides for an exchange of Egyptian cotton for Soviet grain.

Finland's 1945 trade agreement provided for an exchange of Russian grain for minerals and ship repairs. The April 20, 1946, agreement for the last half of that year specified an exchange of commodities valued at \$32 million. This was followed by a 2-year commercial and financial agreement on December 5, 1946, by another on February 3, 1947, relating to the transfer of German assets to the U.S.S.R., and by a formal trade agreement, December 1, 1947.

Finland's economy is tied to Soviet Russia's by the provision in the peace treaty requiring reparation payments of \$300 million by Finland and the transfer of German assets valued at \$4 million.⁶

Finland supplies Russia mainly with lumber, cellulose,

⁶ On July 1, 1948, the Soviet Union reduced the outstanding indebtedness for reparations from Finland, Hungary, and Rumania by 50 per cent. On that date the outstanding indebtedness of the three countries was as follows: Finland, \$140 million; Hungary, approximately \$135 million; Rumania, \$110 million.

cobalt, prefabricated houses, barracks, industrial equipment, paper and paper products. Finland buys from Russia mainly grains, sugar, fertilizers, coal, and raw materials.

France signed a 5-year trade agreement December 29, 1945. In retaliation for France's expulsion of the Russian Military Mission and twelve members of the Russian Repatriation Commission, and the closing of the repatriation center, on December 9, 1947, Russia expelled the French Mission from Moscow and canceled her trade agreement. The agreement involved the furnishing of $1\frac{1}{2}$ million tons of wheat by Russia in 1947-48.

Hungary signed a trade agreement with Russia August 27, 1945, to cover the period through December 31, 1946. A supplementary agreement was entered into for the period January to March, 1947, which was later extended for several months. The exchange of goods during January and February, 1947, was valued at \$16 millions. Russia sent Hungary coke, iron ore, cotton, salt, and ammonia nitrates, in return for Hungarian jam, fruit pulps, wine, essences, oilcake, lucerne seed, poultry, telephone and telegraph equipment, and railway engine armatures produced by small industrial co-operatives.

The above agreements were followed by a treaty on trade and navigation on July 15, 1947, and on the same date was signed an agreement for an exchange of goods. The latter covers the period through July 31, 1948. Based on this agreement, the U.S.S.R. is delivering to Hungary iron ore, coke, ferrous alloys, raw cotton, artificial fertilizers, various chemical products, rolled steel, products of its machinery-building and electrochemical industries, cotton cloth, tobacco, spirits, and other types of agricultural products. For the year ending July 31, 1948, the trade of each country to the other is to be approximately \$30 million.

In accordance with the peace treaty, Hungary is obliged to pay Russia \$200 million in reparations, and, as provided in the Potsdam Agreement, to turn over to Russia \$200 million worth of German assets in Hungary.⁷

Iceland signed a series of commercial contracts on May 27, 1946, dealing with Russia's purchase of \$15 million worth of fish and herring oil, in return for Russian coal, timber, and American dollars. In June of 1947 an agreement was signed which involves the delivery of fresh herring, salted herring, quick-frozen fish, and various oils including cod liver oil.

Netherland's trade and payments agreement of July 2, 1948 for twelve months, provides for the supply of Netherland ships, equipment, and cable, in return for Russian grain, lumber products, apatites, potassium, ferro-manganese, and coal.

Norway signed a trade and payments agreement with Russia on December 27, 1946, for two years, which provides for an annual exchange of goods between \$8 million and \$12 million. Norway furnishes Russia fish, whale oil, sulphur, molybdenum, aluminum, and other commodities in exchange for Russian coal, coke, potash, iron ore, lumber, and chemical products. There is a provision in the trade agreement that private firms may individually conclude cash transactions with the Soviet economic trading organizations. A protocol on mutual deliveries (1948) was signed January 6, 1948.

Poland's commercial treaty with Russia of July 7, 1945, specified an annual exchange of goods valued at \$96 million in exports and imports, respectively. This was followed by a commercial and financial agreement on April 12, 1946 which provided for mutual most-favored-nation treatment and specified an exchange of goods worth \$120 million in

⁷ See footnote 6, *supra*.

exports for the latter half of 1946. Based on this last document, Poland delivered 8,878,320 tons of coal and coke and large quantities of steel and iron, zinc, cement, calcimated salt, and cotton and wool fabrics prepared from raw materials delivered to Poland by the Soviet Union.

Inasmuch as the Potsdam Agreement authorized the U.S.S.R. to collect reparations from Germany for Poland, the Soviet Union signed an agreement on August 16, 1946, which granted Poland compensation for damages caused by German occupation. The amount was reported to be \$50 million. This agreement also provided for the return to Poland of railroad rolling stock from Soviet trophy property, and for the alteration and completion of the Krakow-Katowice-Przemysl railway line on or before November 1, 1947.

A financial agreement signed January 1, 1947, related to mutual financial obligations and the establishment of a system of financial accounting. A loan agreement followed in March 1947, which granted Poland \$27,875,000 in gold to be used as and when Poland saw fit. The loan is repayable within thirteen years, the first payment becoming due in 1950. The interest rate is $1\frac{3}{4}$ per cent.

Another agreement signed in the spring of 1947 provided for Russia's rendering scientific and technical collaboration for industrial production, and supplying armaments and military requirements on credit.

Poland imported from Russia goods valued at \$27,477,070 during the first six months of 1947.

A provisional trade agreement signed in the spring of 1947 was followed by another, a goods-exchange agreement, signed August 3, 1947. In fulfillment of the last two agreements, Poland has been furnishing nonferrous metals, cotton cloth, sugar, coal, window glass, and other products in return for

Russian raw cotton, iron and manganese ores, ferroalloys, oil products, quantities of chemicals, and other goods.

The latest agreement, signed January 26, 1948, is for five years and provides for an exchange of goods totaling \$1 billion, and for a credit to Poland of \$450 million for the purchase of Russian industrial equipment. Goods are to be charged at world market prices expressed in dollars.

It is interesting to note that Sweden also has granted Poland a 4-year credit of \$111 million, for the purchase of electric power equipment (\$28 million), telecommunications (\$20 million), machinery (\$11 million), industrial equipment and other goods (\$52 million).

A protocol was added to the 1948 agreement on May 13, 1948, providing for an exchange of goods between Poland and the Soviet Union of \$110 million to each side between April 1, 1948 and March 31, 1949. In addition to the type of commodities already mentioned the Soviet Union will supply tractors and motor cars, and Poland will furnish railway cars, paper products, and consumer goods.

Rumania's first trade agreement with Russia since World War II provided for an exchange of commodities valued at \$20 million in exports and imports, respectively. The trade and payments agreement of February 20, 1947, increases the volume of trade to \$25 million and grants a 4-year credit to Rumania. Rumania is to buy \$25 million in commodities from Russia and to sell to Russia \$15 million worth, the remaining \$10 million to be paid in four years. Rumania sells Russia petroleum products, construction materials, and other goods, and buys coke, steel, raw materials for the metallurgical and textile industries, and certain types of industrial materials and equipment.

Rumania also signed a trade and navigation treaty, February 20, 1947. This was followed by a grain agreement on

June 25, 1947, in which the U.S.S.R. agreed to sell Rumania grain to tide over the requirements until the fall harvest. A wool agreement of September, 1947, specifies that Russia is to deliver to Rumania enough wool to enable her textile industry to produce about 783,000 yards of woolen cloth.

According to the trade and payments agreement of February 18, 1948, the Soviet Union will supply machine tools, machinery, and semi-finished goods in addition to the usual raw materials, agrees to buy from Rumania certain products manufactured from Soviet raw materials, and to furnish technical assistance in building coke ovens and other industrial projects.

Like Hungary and Finland, Rumania must pay reparations to the Soviet Union. The sum is \$300 million, over a period of eight years, in commodities figured at 1938 prices.⁸ The commodities furnished for reparations thus far are petroleum products, grain, horses and other livestock, lumber, ships, industrial and railroad equipment.

Sweden signed two agreements with the Soviet Union, October 7, 1946. One of the agreements provides for a credit of 1 billion kronor (\$278,500,000) to be utilized in five years. One-fifth of the amount is to be advanced annually, but transfers are permissible from one year to the next. The credit may not exceed 300 million kronor in any year. Russia will have fifteen years to repay the credit. There is no interest charge the first three years, and only 3 per cent after the third year.

The other five-year agreement provides the types of commodities to be exchanged. These include the following from Sweden: equipment for electric-power stations, steam-power works, equipment for mechanized extraction and concentration of ores, mechanization of forestry and, possibly, of peat

⁷ See footnote ⁶, *supra*.

extraction, housing construction and production of housing materials, steam locomotives, trawlers, and other mechanical equipment, high-grade steel and steel products, drilling pipes, steam-boiler tubes, materials for the manufacture of ball bearings, ball and roller bearings, optical and measuring instruments, spare parts for turbogenerators, and other industrial products; products of agriculture and fisheries: horses, breeding stock, fish, and so on. Russia is supplying Sweden with raw materials, such as manganese and chromium, asbestos, gypsum, nickel, silver, platinum, apatite and potash, mineral oils, cotton and flax, as well as certain industrial products including pig iron and rolling-mill supplies. Provision is made for two hundred Soviet inspectors to remain in Sweden to check on the quality of goods being produced for the U.S.S.R. These agreements were supplemented by a protocol on mutual deliveries for 1948, signed December 31, 1947.

Because of these agreements, it is reported that the U.S.S.R. paid to Sweden half the agreed value of a formerly Swedish-owned water-power plant in Latvia, which was confiscated by the Russians after the annexation of Latvia. According to Harry Schwartz:

The comprehensive Soviet-Swedish trade the credit agreement represents a reorientation of the Swedish economy, having the political objective of improving relationships between the two countries and the economic objective of partially insulating Sweden from international business cycle fluctuations.⁹

Switzerland signed a treaty of commerce with the Soviet Union, March 17, 1948. Although the treaty is of unlimited duration, the agreement on deliveries covers the period April 1, 1948 to March 31, 1949, and the trade representation for two years. The treaty contains the most-favored-nation clause

⁹ *Russia's Postwar Economy*, Syracuse University Press, 1947, p. 93.

and establishes the principles for the development of economic relations between the two countries. Russia will supply grain, lumber, and gasoline, in exchange for Swiss power and electro-technical machines, tools, watches, dyes, shoes, and cattle.

Yugoslavia's trade agreement with the Soviet Union of June, 1946, grants a long-term credit to Yugoslavia. Two additional agreements were entered into July 25, 1947, one a trade and credit agreement and the other a trade and payments agreement for two years with optional renewal. The latter contains a schedule of goods to be exchanged between June 1, 1947, and May 31, 1948. According to the schedule, Russia is exporting to Yugoslavia cotton, paper, cellulose, petroleum products, coal, coke, ferrous and nonferrous metals, automobile tractors, fertilizers, and other goods. In exchange Yugoslavia is supplying lead, zinc, pyrite concentrates, copper, tobacco, hemp, plywood, and agricultural products.

The July 25, 1947, trade and credit agreement extends credit to Yugoslavia for the purchase of equipment for ferrous and nonferrous metallurgy, petroleum, chemical, and lumber industries. The Soviet Union is also to furnish technical assistance in connection with the design, assembly, and installation of the equipment.

CREDITS

In spite of all the above trade agreements, the Soviet Union needs to exchange commodities with the Western powers. To aid in such an exchange, the United Kingdom and Sweden have granted credits since 1945.

That credit from Western powers is essential in order to trade substantially with Russia is not a new requirement. It had its roots in pre-World War I days, and is the same

today. William Henry Beable, a British expert on Russian trade, said in 1918:

It has almost become a platitude to say that credit from one to two years was necessary in order to do business with Russia.

L. E. Mather, president of the Russo-British Chamber of Commerce, London, in 1935, indicated in his Annual Report presented May 28, 1935:

Countries trading with the Soviet Union have thus to face the alternative of doing business on a cash basis with a limited turnover, or of extending financial facilities with a consequent increase in their export trade.

Though Soviet Russia in 1948 is stronger militarily and more stable economically and politically than at any time since 1918, the destruction of vast areas, factories, power stations, whole communities, railroads, and so on during World War II has created an urgent need for consumers' and capital goods, which can be paid for only over a period of years.

Credit went through a form of evolution from short-term commodity advances from private firms, frequently financed by black marketeers, to government guarantees, bank credit, the floating of a bond issue, and bank loans. Sweden granted an 8-year loan in 1934; Czechoslovakia floated a bond issue in 1935. The credits granted by Sweden in 1946 are referred to under "Trade Agreements since World War II." Germany was first and England second in granting credits after World War I, and England is the first to grant 15-year credits in 1947. A number of other countries granted credits at varying times.

American nationals at one time played an important part in granting private credits. In the early thirties the outstanding private credits of American firms were as great as those

of British private and government credits combined. Since 1945, however, the United States has been reluctant to grant credits.

Nationals of many countries obtained credits through government or semigovernment credit insurance plans in operation from 1926 onward in fifteen European countries¹⁰ and Japan. The governments that instituted such plans were Austria (Vienna had an additional plan), Belgium, Czechoslovakia, Denmark, Finland, France, Germany, England, Italy, Latvia, the Netherlands, Norway, Poland, Spain, Sweden and Japan. As a rule these proved more costly and less convenient to the Russians than long-term bank loans for the purchase of goods secured by Russian bills of exchange.

In accepting credit the Soviet Union has guaranteed what is possible in accordance with its laws, and frequently has adjusted its laws to meet the needs of the other party to the agreement.

Premier Stalin has emphasized on a number of occasions that Russia is the biggest market in the world and that she needs favorable credits. I. A. Eremin, chairman of Amtorg Trading Corporation, New York, has recently indicated that Russia is a *permanent* market.

If the United States is going to be one of Russia's major suppliers, a system of either private or government credit will have to be instituted. If the government decides to grant credits, the businessmen should aid in formulating a practical and workable policy. To obtain the greatest amount of trade, credits must not be overcommitted or undercommitted. Germany had some experience with the former. As may be noted from German and British experience, there

¹⁰ Stella K. Margold, "Export Credit Insurance in Europe Today," Senate Document 225. Washington: Government Printing Office, 1934.

are other factors which may interfere in the smooth operation of trade even when the most favorable credits are offered.

GERMANY

German experience is worth noting because she went further than any other nation with respect to types, amounts, and length of credit. She was the pioneer in extending state guarantees and long-term bank credit to stimulate Russian trade.

Charles G. Bron, chairman of the board of Amtorg, said before the Export Managers' Club in New York, November 27, 1928:

Of all countries with which we have commercial relations, Germany was the first to see the necessity of bringing in new elements in her trade relations with Russia. From short term credits a transition was made to long term credit arrangements guaranteed by the government.

Germany's first credit of \$23,801,300 was made upon the completion of the October 12, 1925, trade agreement. It was payable in United States dollars in two installments, one-half on January 31, 1926, and the balance on February 29, 1926. In this credit, as in all German-Soviet credit arrangements that followed, a certain percentage of the orders had to be placed within a specific time, and the whole amount utilized within about a year. Payments were divided in accordance with the dates of orders or delivery dates, and the categories of the goods.

The basis for state guarantee of credits was provided in the law of February 25, 1928, supplemented from time to time by presidential decrees, by special provisions in the Neutrality Treaty signed by Germany and the Soviet Union April 24, 1926, for two years, and in its supplement of January 25,

1929, extended every few years, and confirmed when Hitler came to power in 1933. The Pyatakov Agreement of April 14, 1931, provided for arbitration in Berlin and established terms of payment and interest rates. And the credit agreement of June 15, 1932, prolonged payments to twenty-eight months. This agreement reiterated that orders had to be placed through the Soviet trade delegation in Berlin, that the orders must be guaranteed by the said delegation, and that the place for payment, signing of acceptances, checks, or cash was in each case to be Berlin. Other credit agreements followed, stating amounts of credit and time of payment and dates for placement of orders.

The state guarantee covered only a portion of the cost of the orders. Thus the first credit thereunder, \$42,838,280, made possible sales valued at \$71,398,800. The proportion of the amount guaranteed by both the federal and state governments—each bearing a share of the guarantee—varied at different times between 60 and 75 per cent of the invoice value. The difference had to be financed or guaranteed by the firm selling to the Soviet Union.

Public, semipublic, and private agencies handled the financial side and the discounting of acceptances. Government guarantees for short-term credits up to twelve months were dealt with at first by the insurance company, Hermes, which was liquidated in the early thirties. After that they were handled by banks. Long-term credits were negotiated through IFAGO (Industrie Finanzierungs Aktiengesellschaft Ost), which issued in exchange for the Soviet bills its own 3-month bills, discountable at any of the banks forming the consortium functioning at the time. From 1935 on, long-term credits were handled solely by the banking consortiums.

The guarantee was approved only after the contract was concluded between the German firm and the Soviet dele-

gation or purchasing organization. The German manufacturer, when he obtained his order, submitted it for approval to the Deutsche-Revisions-und Treuhand-Aktiengesellschaft (German Auditing and Trust Company), which dealt with the proprietary formalities. After the forms were checked they were submitted to the Interministerieller Ausschus (Interdepartmental Committee). When the bill was presented for guarantee it had to have the signature of the buyer and the signature of the Soviet State Bank or of the Soviet trade delegation in Berlin.

The insurance fee for light and heavy industrial credits was 2 per cent of the contract price of the invoice for the first twelve months, and $\frac{1}{2}$ of 1 per cent for each additional three months. Another $\frac{1}{2}$ of 1 per cent was added if the guarantee was to cover risk during the period of manufacture. For consumers' goods the premium was 1 per cent for three months, $1\frac{1}{2}$ per cent for six months, and 2 per cent for nine to twelve months.

The banks charged as much as $11\frac{1}{4}$ per cent interest before 1931. In 1931 it was reduced to a maximum of 10 per cent and a minimum of 7 per cent for discounting the guaranteed portion of the credit. In 1933 it was reduced to 2 per cent over the Reichsbank rate, the lowest bank rate about that time being 6 per cent. And after 1935 only the Reichsbank rate was charged.

Until 1935 the banks discounted only the guaranteed portion of the credit, and the balance was handled on the open market, or black bourse. On the open market the discount rates were at first as high as 50 per cent. In the thirties they were between 12 and 20 per cent. After 1935 no black bourse was involved because the banks discounted 100 per cent of the contract price.

It was credit consortiums of German banks in co-operation

with the Reichsbank that rediscounted the Soviet paper. The member banks of the consortium were not always the same. On July 19, 1932, a group of private German bankers agreed to discount Russian bills, maturing in twenty months, up to a total of \$35,445,300. In June, 1935, under the direction of IFAGO, the "Kreditkonsortium Russland 12" was formed to handle the \$61,035,800 credit agreement of April 9, 1935. The same consortium remained the central agent for the discounting of Soviet bills until World War II.

Germany's efforts to obtain Russian trade through trade and credit agreements were successful until 1931, when various factors caused Russia to default in her payments. These were: (1) Germany's buying less from Russia than she sold to her between 1930 and 1933. In 1930 Germany's purchases from Russia were about 11 per cent below Russia's purchases, in 1931 and 1932 they were only one-third of Russia's purchases in Germany, and in 1933 they were approximately one-half. (2) The credits granted had to be used for purchasing more goods. They could not be diverted for payment of any part of the outstanding indebtedness. (3) German cartels were holding up prices. (4) The political atmosphere was becoming strained. During this period, between 1930 and 1934, other countries reduced their unfavorable balances by open or concealed depreciation of currency and by currency regulations. Above all, it was the period of the world depression when prices were falling everywhere and Russia had to sell her commodities for less than the prices planned. Germany was Russia's largest creditor, and the accumulated debts were reported to be \$458,386,400 by 1934.

When the default was imminent in 1931, The Bank for International Settlements agreed to accept Soviet bills discounted by German banks as security for credit. And a protocol on Soviet-German economic relations of December

22, 1931, placed Soviet bills of exchange exclusively on a mark basis. Formerly they had been payable in Berlin, London, or New York in marks, pounds, or dollars.

In February, 1933, Germany reluctantly permitted the Soviet Union to pay about 4 per cent of the outstanding debts with blocked marks. These were purchasable at a discount by a number of other countries which paid for exports entirely with blocked marks. At the same time the Hitler regime arranged a bank credit of \$42,725,060 to aid Russia. This was called the *überbrückungskredit* (bridging over credit) and was intended to bridge the gap between current maturities and past indebtedness. The funds were granted by a banking consortium as an advance against future shipments of Soviet merchandise. The special banking consortium consisted of the Dresdner Bank, which assumed 65 per cent of the credit, and the Deutsche Bank, which invested 35 per cent. The credit was for twelve months on "normal commercial terms."

Germany purchased in 1934 three times as much as she sold to Russia. This was some help, but not so much as would appear after a consideration of Russia's purchases in 1934, which had dropped precipitately.

In 1934, when Russia's financial situation still appeared strained, a new agreement was signed March 20, granting an extension of about \$35 million for fourteen months. The Soviet government, however, managed to better its position by increasing gold output and further improving its balance of payments. It was necessary to accept only a portion of the extension granted in the agreement of 1934, and by September 25, 1935, the Soviet government paid the last installment.

Russia's solvency encouraged the German government to grant additional credits and improve banking facilities. The 1935 agreement was the first one by a Western power to

grant a bank credit to the Soviet Union for five years. The amount of the credit was in the neighborhood of \$105 million. A summary of the agreement is contained in Appendix 9.

After the signing of this agreement, the Soviet trade delegation handed its bills of exchange directly to the Russian Credit Consortium 12. The bills were made out individually for each transaction. Against these bills the consortium advanced the total amount of the invoice value to IFAGO to enable the trade delegation to pay cash to the manufacturer for the entire amount. IFAGO held the bills as collateral.

Against the light equipment orders the government guaranteed 60 per cent and against the heavy equipment orders 70 per cent of the invoice value. The German manufacturers had to take the risks on the balance of the loans. That is, their endorsements were accepted for their shares in the risks. The essential difference between the new agreement and its predecessors is that the manufacturer was relieved of all immediate concern regarding the financing and rediscount of the bills.

Another important feature of the 1935 agreement was that no official "Devisenbescheinigungen" (permits for bills of exchange in foreign currency) were required from German importers of Soviet goods, as provided in the Schacht "new plan." A manufacturer who was short of raw materials could buy them from the Soviet Union without the newly required permit for purchases of foreign currency. The paradoxical situation arose whereby the Soviet Union, with its monopoly of foreign trade, became, at least temporarily, the only country with which Germany could still have a certain degree of free trade.

Soviet foreign trade organizations did not hesitate to take

due advantage of this peculiar situation and of their own monopoly by asking higher prices from the Germans in retaliation for the high prices charged them, and by offering finished goods instead of raw materials. At this time, the Soviet Union embarked on a plan of re-exports. A number of commodities other countries were then selling to Germany were imported by Russia, and as re-exports were naturally higher in price than usual. For Russia, like capitalist countries, operates on a profit basis.

Since Russia was the only country from whom the Germans at the time could cover their requirements without a foreign exchange permit, the German buyers had little alternative. Dr. Schacht's plan was not working out well because he expected that all Russia would have to sell would be the raw materials German industry needed so urgently.

The German government, therefore, considered it best to make imports of Soviet goods, like those of any other origin, contingent on a presentation of a permit issued by one of the twenty-five import control boards established under the Schacht New Plan. As a result, trade, which had begun to revive in 1936, again declined.

The Hitler government on several occasions emphasized its desire and intention to maintain and, if possible, to expand Germany's trading relations with the Soviet Union. Commenting on trade relations between the Third Reich and the U.S.S.R. on the tenth anniversary of the agreement of October 12, 1925, *Die Deutsche Volkswirt* (*Germany Economy*) (No. 30, 1935, page 565), said:

As clearly demonstrated by the economic agreements concluded during the last 5 years, the National Socialist State attaches the greatest importance to the developments of peaceful economic relations with the Soviet Union based on mutual advantage.

During this period, however, there were vehement political attacks in Germany on Soviet leaders and retaliations in the Moscow press. Minister Molotov at the Congress of Soviets, which took place in the Kremlin, January 28, 1935, said that relations with Japan and Germany were distinctly difficult. He referred to political relations in particular.

The 1935 agreement did not work out as Germany had hoped after permits for bills of exchange were required for Soviet orders. The Russians complained that the German prices were too high "above world prices." The Germans retorted that there is no world price on machinery. It was reported at the time that German manufacturers were adding 30 per cent to the quotations for machinery to Russia. In addition, the Germans were permitting certain nations to use blocked marks, obtainable at a discount.

There was a boom in Germany at the time because of the expansion of public works and rearmament manufactures. German machinery manufacturers were therefore reluctant to make price concessions as long as the domestic boom continued.

The Soviet trade delegation in 1936 signed an agreement with a group of German industrialists, headed by Otto Wolff. They granted a credit of 65 million marks, two-thirds of which was expended for oil piping. The credits were for forty-eight months from date of delivery.

Trade between Germany and the U.S.S.R. continued to fall until 1939, when Soviet Russia signed the Friendship Pact and aided Germany in obtaining goods. Russia, no doubt, paid up all her indebtedness to Germany before the outbreak of hostilities in June, 1941.

As a result of the Potsdam Agreement, Germany will probably be paying reparations to Russia for many years, and it will be many years before German nationals or the German

government will be in a position to extend credits. Yet past German experience is of interest in showing the importance of favorable trade balances, fair prices, fair interest rates, and stable currency as an accompaniment to credits if successful trading is to be attained.

Germany worked out an efficient schedule of credits, which may be useful to other nations or nationals. It divided the commodities into four classifications and periods of payments as follows:

1. *Consumers' goods*—16 months from date of delivery. The payments were:
 - 20 per cent with order in acceptances maturing in 15 months from date of order,
 - 40 per cent on delivery in acceptances maturing 14 months from date of delivery,
 - 40 per cent on delivery maturing 16 months after date of delivery.
2. *Light equipment*—goods which can be delivered promptly, such as tractors, agricultural, woodworking, sawmill, leather-working, textile, and paper machinery, also airplanes, automobiles, and so on. The maximum credit averaged 24 months from date of delivery. The payments were:
 - 20 per cent with order in acceptances maturing in 19 months from date of order,
 - 40 per cent on delivery in acceptances maturing in 18 months from date of delivery,
 - 40 per cent on delivery in acceptances maturing in 24 months from date of delivery.
3. *Heavy equipment*—as industrial plants, heavy machinery works, or the remodeling of plants on a large scale. The maximum credit for these averaged 24 months in the 1930 agreement, 28.8 in the 1931 and 1932 agreements, 29 months from date of delivery in the 1933 agreement, and 28 months from date of delivery in 1935, and thereafter. The payments were divided as follows:
 - 20 per cent with order in acceptances maturing 20 months from date of order,

40 per cent on delivery in acceptances maturing 25 months from date of delivery,

40 per cent on delivery in acceptances maturing in 28 or 29 months after date of delivery.

There was a provision, applicable in the 1933 and 1935 agreements, that in case of particularly large orders of the 3 categories above, the last payment of 40 per cent may be divided into two payments of 30 per cent for the maximum period mentioned, and 10 per cent for another like period. It was specifically stated that this provision does not apply to category 4.

4. *Ships, locomotives, and other heavy equipment*—The division of payments for this category were not specified. Special long terms were arranged. The credits usually averaged 5 years and some times extended over a longer period.

In all agreements after 1931 the interest was charged quarterly and payable in either cash or in 6-month acceptances. All acceptances for advance credits were free of interest during the first three months, provided that period preceded the date of delivery. In 1935 and subsequently the interest was 6 per cent.

England's plan for getting Russian business bore some similarities to, and some differences from, the German plan.

UNITED KINGDOM

England at no time granted as satisfactory facilities for credit as did Germany. Yet she managed to get a good share of Russia's trade and surpassed Germany in 1934, 1935, 1937, and 1938. From 1934 until Russia signed the 1939 Friendship Pact with Germany, political relations with England ran smoothly, and England granted increased concessions in premium rates and interest rates, in amounts allotted for export credit insurance and the periods of credit. England also increased her purchases from Russia to the maximum

extent, and in other ways improved the possibilities for trade.

England made every effort to establish herself on the Russian market. In 1919 Britain organized the Moscow Narodny Bank in Moscow, London, and New York to aid in controlling the growing volume of trade passing through Russian co-operative channels. This bank functioned in the Soviet Union and New York until the co-operatives were merged with the state economic organizations. The activities of the Moscow Narodny Bank were taken over in Moscow by the Bank for Foreign Trade of the U.S.S.R. The merger was probably made in the middle twenties, but was not officially announced until 1932.

The principal shareholders of the Moscow Narodny Bank and its branches were the co-operative banks in the U.S.S.R., the Vsekokbank and the Ukrainbank, the various central co-operative institutions, and the central export-import associations that later took over the activities of the co-operatives. The organizations in London and New York representing the central co-operative institutions, Centrosoyus and Selskosoyus, were shareholders. In London, also, the British-Russian Trading Corporation and Arcos, Ltd., were interested in the bank.

The Russians, as an adjunct to Arcos, set up in London the Arcos Banking Corporation, an independent merchant bank with a capital of £1 million (\$4,425,800 at the 1920 average rate of exchange). Because of its limited capital, credits were also arranged by British banks in co-operation with the Bank for Russian Trade, Ltd., London, and the Moscow Narodny Bank, Ltd.

Although the United Kingdom signed its first treaty with the Soviet Union in 1921, it was not until 1929, when a Labor government was in power, that government guarantees

for exports to the Soviet Union were instituted. Export credits were granted by England after 1921 on behalf of nationals of countries exclusive of Russia. But whereas government guarantees covered only insolvency in other countries, in connection with Russian trade it covered default.

Guarantees were granted only in respect to goods wholly or partly produced or manufactured in the United Kingdom, including coal. At the beginning only 60 per cent of the invoice value of goods to Russia was guaranteed. The law provided for a maximum of 75 per cent. As confidence in the Soviet Union grew, most guarantees were increased and by the middle thirties the average was 69 per cent of the invoice value.

The insurance premium was higher in England than in any other country. It was as high as 12 per cent per annum and as low as 6 per cent. The lowest until 1935 was 8 per cent, and in that year it was lowered to 6 per cent in some cases and 7 per cent per annum in others. The premium was paid upon application, but was not effective until the goods were shipped.

The premium was the insurance charge for the guaranteed portion of the invoice value of the order. In addition, there were interest and bank charges to pay for discounting the guaranteed portion of the acceptances, and additional interest charges for the unguaranteed portion. The guaranteed portion was discounted by the bank at 1 per cent above the regular interest rate. For discounting the unguaranteed portion the rates ranged between 20 and 40 per cent at the beginning, and later between 12 and 40 per cent, depending on the confidence in the Soviet Union at the time, the length of the credit, and the amount of money available.

With respect to the premium rates and other charges for

credits, the Bureau of Research on Russian Economic Conditions said in 1932:

In addition to interest charges, which are often higher than the usual rate, the London banks and brokers cover the risk connected with the transaction by charging large commissions. If the part of the commission exceeding the usual rate is regarded as an extra premium, and the advance is calculated on an annual basis, it shows that this form of financing costs the Soviet Union approximately 20 to 22 per cent per annum, including ordinary interest charges.

England took the attitude that the profits from future business would in the long run take the place of compensation for British property nationalized by the Soviet Union.

The average credit granted until 1936 for the combined guaranteed and unguaranteed portions was 13 months. For purchases of cotton it was 25 per cent of the invoice for 3½ months; for nonferrous metals, 23 per cent for 3½ months; for motorcars and trucks, 75 per cent for 8½ months; for electrical machinery the credit was 85 per cent for an average period of 15 months; for textile machinery, two-thirds of the total invoice value for an average period of 18 months; for turbogenerators the credits granted were for 88.4 per cent for an average period of 19 months; on boilers, 77 per cent for an average of 21 months. The differences between the percentages mentioned and 100 was paid in cash.

In November, 1938, some British firms began to grant credits on 75 per cent of the order, spread over five years, and charged 6 per cent interest on nine-tenths of the order. The previous year two British firms, Tweedles & Smalley and Platt Brothers, had got orders involving over \$10 million for textile machinery on credit terms extending over three and one-half years. Platt Brothers had sold \$4 million worth of textile machinery to Russia before granting the 3½-year

credit. In 1930 Metropolitan-Vickers granted a 5-year \$1 million credit for the supply of an electric plant. Other credits followed. In general the engineering and electrical industries offered credits ranging from twelve to sixty months.

In 1931 some British steel firms offered credits of $\frac{1}{3}$ payable in 12 months, $\frac{1}{3}$ in 18 months, and $\frac{1}{3}$ in 2 years. Tool-makers gave similar credits. Shipbuilding firms granted from 12 to 72 months. And in 1933 an important British textile machinery company accepted a \$10 million order which called for 10 per cent cash, 10 per cent in 12 months, 20 per cent in 24 months, 20 per cent in 36 months, 15 per cent in 48 months, and the final 25 per cent in 54 months, with interest at 6 per cent. In 1934 the Cooperative Wholesale Society, Ltd., granted the Soviet Union a 12-month \$4 million credit for the purchase of tea.

One of Britain's leading electrical companies concluded a contract for more than \$2 million with payments as follows: 20 per cent cash on delivery of at least one-fifth of the total order, 10 per cent and 15 per cent acceptances, respectively, to mature at various periods up to 60 months from delivery. Interest in this case was 7 per cent. A British boilermaking company with a contract for \$2,500,000 got 25 per cent cash, 20 per cent in 12 months, 15 per cent in 24, 36, and 48 months, respectively, and the balance of 10 per cent in 54 months. The interest charge on the private credits was 6 or 7 per cent. But only large firms with extensive credit facilities could afford to do business on this basis. Other firms had to use government-guaranteed credits.

When the government plan went into operation in 1929 on behalf of the U.S.S.R., 6 months from date of shipment was the maximum credit; after a few months it was increased to 12 months, and in July, 1930, to 18 months. In July, 1931, the maximum period was increased to 30 months from date

of order. This was in most cases equivalent to from 24 to 27 months from date of shipment.

In September, 1931, however, the Labor government decided that no credits would be given for more than twelve months. But in February, 1932, the department was again "free" to consider proposals involving more than twelve months' credit, with the provision that "in case of exports to Soviet Russia, the advisory committee would exact more stringent conditions than in the past." The longer credits, when granted, were applicable to heavy machinery. Lighter classes of machinery were usually accorded twelve months' credit from date of shipment.

The fall in world prices during the depression proved a detriment to the Russians because the prices of their own exports also fell. In addition, the devaluation of the pound sterling lowered the value of Russian deposits in England. These conditions, coupled with the unfavorable credit situation, the price and interest overcharges, and the boycott of Russian products in 1932 to 1933, caused the Soviet Union to buy less and to create a favorable balance of trade in 1932. The favorable balance of trade, together with the vigorous increase of gold production within the country, enabled the Soviet Union to reduce its foreign trade indebtedness and to strengthen its currency position. Russia could then buy for cash and refuse unfavorable credits.

Commissar Rosengoltz said in 1933:

We shall not extend our imports without considerable modification in the financial-credit conditions . . . without lengthening the period of credits . . . without their transformation from goods credits into financial credits . . . without the elimination of overpayment . . . and of open or indirect excessive interest rates on credits. And we shall take into account the system established by any country to deal with our exports, and the presence or

absence of normal commercial and political relationships. Given the existence of these conditions, we could extend our purchases to a considerable extent.

On another occasion he remarked:

In view of the exceptional punctuality of the U.S.S.R. in the settlement of our liabilities, excessively high rates for the government guarantee in respect of our orders can only be the result of a desire to find a means of redeeming losses on export transactions with other countries, or to increase the revenue of the treasury.

In April, 1934, the *British-Russian Gazette* announced a \$6 million profit to the British government from the export credits on Russian trade.

Mr. Ozersky, trade representative of the U.S.S.R. delegation in London, in 1934 also emphasized the high cost of credit. He indicated that the Soviet Union would not pay 10 or 11 per cent for credit insurance besides the other charges. He said, "Such terms are not only prohibitive, but in no way correspond to the economic, financial and political position of the U.S.S.R."

Russia discontinued using the facilities of export credit insurance. She was buying for cash. Debts for short- and medium-term credits were paid off before maturity. This situation was followed by a reduction in export credit guarantee charges to 6 and 7 per cent, depending on length of credit and types of goods. The bank interest rate, which was 8 per cent in 1933, was reduced to 6½ per cent in 1934, and in 1935 to 6 per cent. Subsequently, and up to World War II, it was 5½ per cent. Since then it has been reduced to 3 per cent.

As will be seen from the Financial Schedule, which was part of the 1934 agreement, and which is in Appendix 5, the balance of trade was an important factor in Russian economy. The schedule of payments in the 1934 agreement balanced

exports with imports by 1938. In this balancing of trade, Russia's invisible imports from England played an important part. These took the form of chartering of vessels, maritime, freight, loading and unloading operations, storage, warehousing, sorting, packing and so on, insurance of goods, trading and administrative expenditures, brokerage fees, taxes, salaries, rent, excise, and all other payments connected with the trading activities of the Soviet organizations in England. Interest and commission in connection with credit also were large items, as were, during various periods, tourist travel and banking. As a result of the 1934 agreement, Russia chartered in England nearly twice as many vessels in 1934 as in 1933.

All financial obligations in connection with the 1934 agreement were paid either on time or before maturity. Referring thereto, Mr. Ozersky said:

. . . the excess of our payments in 1934 was over \$23,576,000, amply fulfilling our obligations for this period, and I am glad to be able to tell you that there is every indication that the working of the agreement will be as successful in the second year.

The same year the private credit extended by the Cooperative Wholesale Society for the purchase of \$4 million worth of tea was paid before maturity.

The 1934 agreement did not grant Russia the credit facilities which Germany incorporated in the German-Russian pact of 1935. The 1934 United Kingdom-Russian agreement increased the government guarantees by over \$40 million for purchases in 1935. But Russia wanted longer credits, reductions in interest rates, and better trading conditions. The reduced insurance rates of 6 and 7 per cent were still above those of Germany and Italy, which were between 1 and 2 per cent. England conceded, however, that Soviet trade bills be discounted in London at normal rates and that the guarantee cover the full amount of the purchase.

Commissar Rosengoltz, in a speech before the Council of the Foreign Trade Commissariat in 1935, indicated that Russia was aiming for an accumulation of currency reserves, to increase gold production, to reduce her foreign indebtedness to a minimum, to accept only long-term credits like those granted by the German consortium and by Czechoslovakia in 1935. He indicated that financial credits must be reduced as Russia was no longer prepared to pay 6 per cent for such credits, that the period of credit must be longer than five years, that exceptions could be made where negotiations had started a considerable time before on the basis of 5-year credits, that Russia was ready to make use of technical achievements of English industry if suitable prices, quality, and terms of delivery could be made.

Russia refused to accept credits from manufacturers between 1935 and 1941 and rejected the use of the guaranteed credits in England and Germany in 1936. She refused 5-year credits proposed by Metropolitan-Vickers, by a large traction engineering firm, by the Polish metallurgical industry, and many other offers, because the period of credit was not long enough and the rates were too high. In England, the United States, and elsewhere, she was buying for cash. For capital goods in England she paid 90 per cent cash against documents and the balance in thirty days.

Credits for factory equipment, erection of metallurgical works, and so on, are usually financed on a basis of fifteen to twenty years' credit in the form of loans issued or guaranteed by the country concerned. Russia saw no reason for the discrimination against her, and she aimed to establish her finances in such a way as to pay cash. Trade on a cash basis, however, can only be limited. England, therefore, made some concessions.

In 1935 and 1936 there were supplementary agreements

relating to the amount of credit to be guaranteed, the length of the period, and the interest rate. These agreements were merely an exchange of correspondence between the Export Credits Guarantee Department and the Soviet trade representative in London. The 1935 agreement for purchases in 1936 called for another increase of about \$50 million in government guarantees. The length of the credit was extended to five years and the rate of interest reduced to $5\frac{1}{2}$ per cent. In the July 28, 1936, agreement for purchases concluded in 1937, the credit was again increased over \$50 million and the guarantee covered the full payment of Soviet notes. No insurance premiums were charged. Yet out of 340 orders placed in 1936, 300 were for cash in London within thirty days of dispatch of documents to the import corporation in Moscow. Credits were used only for the import of modern technical equipment.

Payments under the 1936 and subsequent credit arrangements were made as follows: The Soviet government issued notes bearing interest at $5\frac{1}{2}$ per cent per annum and payable at certain periods up to five years. The Export Credits Department guaranteed the principal and interest of the notes and sold them on the London money market to provide a fund for the special account of the Soviet trade representative. From this account Russian orders were paid to the British manufacturers within thirty days of shipment, provided the shipping documents were in order. The British manufacturer was directly concerned in the negotiations with his potential Soviet buyer. For the first time in many years the question of price, quality, and deliveries was a normal one.

Mr. Bogomolov, trade representative of the U.S.S.R. delegation in England, before the annual meeting of the Russo-British Chamber of Commerce on April 20, 1937, indicated

that orders for glassmaking machinery were transferred to other countries because British prices were 25 to 30 per cent higher.

Soviet Russia maintained the excess of payments necessary to meet the schedule provided in the 1934 agreement (Appendix 5). In 1936 the excess was over \$17,700,000. With the excess payments for the years 1934 and 1935, which amounted to over \$23,465,000 and \$8,128,000, respectively, the total excess payments in the three years of the operation of the 1934 trade agreement was over \$50 million. From the end of 1937, the export and import trading of the two countries, based on actual payments of cash and not on shipment of goods, practically balanced.

The 1941 Civil Supplies Agreement (Appendix 6) extended around \$45 million additional credit for 5 years and reduced the interest rate to 3 per cent per annum. As has already been indicated, the financial arrangements in the 1947 Protocol reduce the interest on payments still due in connection with the 1941 agreements to $1\frac{1}{2}$ of 1 per cent and extend the credits to 15 years. The provision for conferences to balance future shipments, contained in Part B of the Protocol, implies credits of at least 5 years as formerly granted.

UNITED STATES

The United States government has not been so successful as Germany or Britain in stimulating Russian trade. While, with minor interruptions, the British and German governments were aiding their nationals to capitalize on Russian business, the United States did little to further the American businessman's interest in trade with the Soviet Union. Germany and England preferred to have profits from the trading cover the repudiated debts, but the United States constantly

raised the issue of debts owing for American loans, surplus war materials, relief supplies, and other obligations of the tsarist and Kerensky regimes repudiated after World War I, and for American property confiscated by the Soviet Union.

Our credit experience with Russia began during World War I, when the secretary of war in the Cabinet of President Wilson opened a long-term credit in favor of three Russian co-operative unions. In May, 1917, after the fall of the tsarist regime and the establishment of the Kerensky government, we granted a loan to Russia amounting to \$189 million for the purchase of locomotives, cars, rails, and military equipment. Against this loan, Baldwin and American Locomotive companies closed a contract amounting to \$29 million for five hundred locomotives.

At first Soviet Russia tried to obtain credit by continuing the centralized co-operatives in operation. The Allied governments notified the co-operatives that they were disposed to authorize an exchange of products upon the basis of reciprocity between the Russian people and the Allied and neutral countries. The co-operative unions were advanced 25 per cent of the value of the exports either by direct contact or by British, French, or Italian financiers. The balance of the necessary credits was furnished in London or Paris by Russian resources or British, French, or Italian co-operatives, private banks, or traders. The Russian co-operatives assumed the risk of loss by fire or otherwise.

In the very early Soviet trade, the organizations that played a leading part were the British-controlled Moscow Narodny Bank, the All-Russian Central Union of Consumers' Societies, Centrosoyus, the All-Russian Union of Agricultural Cooperatives, Selskosoyus, and the Central Flax Growers' Association. Their annual turnover in tsarist days was between \$4 million and \$5 million. When the Soviet gov-

ernment took over, the co-operatives operated over five hundred industrial plants and had a total of fifty thousand employees.

Alexander Zelenko, secretary of the American Committee of the Russian Cooperative Unions, was quoted in the *New York Times* on January 19, 1920, as follows:

America is the most welcome country because the Russian people expect from America fair treatment and open competition entirely free from hidden desires for exploitation of territorial or political rights. Russia needs financial credit in order to foster this trade exchange and needs technically trained men to introduce modern methods . . . Long-term credit is more imperative than ever.

Products Exchange Corporation, Arcos America, and Centrosoyus, which were the first representative offices in the United States after World War I, obtained only a few short-term credits. As soon as the All-Russian Textile Syndicate opened its offices here, it was able to arrange financing by New York banks for shiploads of hundreds of thousands of bales of cotton to Murmansk, but the creditor had to be protected against possible default by adequate deposits in Amtorg account. Amtorg at first was obliged to pay the cash portion of the sale with the order. Later it became payable on delivery at the dock. The credit obtained was for 25 to 70 per cent of the invoice and ran from three to twelve months at varying interest rates. Until 1935, the interest rate was not less than 6 per cent, and in that year it was reduced to 5 per cent for bank credit. On the black market the interest rates were twice or more times as great. At one time the rate was as high as 36 per cent in New York.

In 1927 Amtorg's credit situation improved with the establishment of the Industrial Credit Corporation. Later other concerns were established to discount the credit portion of

invoices presented to Amtorg. The terms of the acceptances were one to twelve months or more. The interest rate was 6 per cent on the credit up to 45 per cent of the invoice value. The risk on the balance was taken by the creditor, or the acceptances were discounted on the black market. In most cases, however, the firms were very large and could handle the risk themselves.

Until World War II private credit was the deciding factor in Russia-American trade. Among the many American firms that extended credit before World War II were

Henry Ford
International General Electric
Newport News Drydock
International Combustion Engineering
John Deere Company
Allis-Chalmers
Worthington Pump
Ingersoll-Rand
Link Belt
Caterpillar Tractor
Hercules Motor Company

An official summary of negotiations and results of the purchase and sales agreement dated October 9, 1928, between International General Electric Company, Inc., and Amtorg Trading Corporation, states:

International General Electric Company, Inc. (herein referred to as "I.G.E.") recognized the potentialities of the Soviet market for electrical equipment, and negotiations were commenced with Amtorg Trading Corporation (herein referred to as "Amtorg") for the sale of such equipment through it to industrial organizations in the Soviet Union. These negotiations were carried on in a most friendly spirit by all of the parties and resulted in an agreement dated October 9, 1928 between Amtorg and I.G.E.

pursuant to which Amtorg undertook to purchase prior to October 1, 1930 a minimum of \$5,000,000 of electrical equipment and I.G.E. agreed to sell to Amtorg during the same period up to \$10,000,000. The agreement also provided an option on the part of Amtorg to place with I.G.E. additional orders to the total amount of \$16,000,000.

I.G.E. in this agreement, recognized that the requirements of the Soviet Union called for credits, and accordingly, payment in the form of trade acceptances was arranged on the basis of 25% cash against dock receipt and the balance of 75% by trade acceptances against invoices and dock receipts, maturing from twelve (12) to sixty (60) months after date. The State Bank of U.S.S.R. guaranteed such payments.

It is needless to say that all obligations of Amtorg and the Soviet industrial organizations were meticulously met, and the agreement of October 9, 1928 led to further substantial purchases of electrical equipment from I.G.E. for industrial organizations of the Soviet Union.

As the result of the satisfactory fulfillment of the 1928 agreement by both parties and the close cooperation established thereby, the business relations between I.G.E. and Soviet organizations—primarily through the agency of Amtorg—has continued to develop to the mutual benefit of I.G.E. and the Soviet industry.

There was included in the agreement an arbitration clause for the settlement of any disputes that might arise, but there was no occasion to arbitrate any question.

It is noteworthy that the terms of payment were 25 per cent before shipment and the balance spread over five years. The rate of interest was $6\frac{1}{2}$ per cent per annum. Not less than \$5 million of equipment and not more than \$10 million was to be shipped during the first two years. If all conditions of purchase were satisfactorily carried out during this period, the agreement was to be extended for another four years, involving purchases of not less than \$4 million of supplies annually. All trade acceptances bore the unconditional

guarantee of the State Bank of U.S.S.R. It was disclosed in England that the IGE agreement made provision for the settlement of all the claims of the company against the Soviet government, as a result of nationalization, upon the conclusion of the contract. For these claims IGE is reported to have received approximately \$1,750,000.

About the same time the Newport News Drydock Company entered into a contract with the Soviet Union for the sale of turbines on the same credit terms. Henry Ford in 1924 offered his maximum discounts; in 1926 he offered credit. In 1929 he got a \$30 million contract for automobiles and parts to be supplied in four years, and a technical-aid contract for the construction of the Nizhni-Novgorod plant on a 9-year credit.

The credits from International Harvester and Allis-Chalmers were for three years. Other American exporters held out for a maximum credit of two and one-half years. Large orders for tractors and combines were reported to have been sold on a basis of 50 per cent down and the balance within two years. There were other credits for shorter periods.

Since 1945 American firms have been reluctant to grant credits because of the present political policy.

In the early thirties responsible manufacturers favored the creation of a bank to discount Russian acceptances. The United States government's attitude toward Russia and Russian imports at the time may have been the cause for the failure of this project. At one time in 1930, however, Amtorg credits totaled \$80 million on terms running up to eighteen months. The discount rate on the black market at the time was 25 per cent.

During the depression, the reduction in value of Soviet exports and the devaluation of currency in many countries caused Soviet credit to become overextended for a time. By

drastic reduction of imports, Russia met the situation and kept her payments on a prompt basis. But banks in the United States generally continued to refuse to finance Soviet orders.

Peter A. Bogdanov, former chairman of Amtorg, in a speech before the Institute of Politics, Williamstown, Massachusetts, said:

The Soviet Union strives to maintain the greatest purchases and establish the closest business connections in those countries where the conditions in regard to price and quality of the product, credit arrangements and general treatment are the most favorable. . . . As a result of the unfavorable credit situation we have been forced to transfer a number of orders to Europe. . . .

Business with the United States will depend upon the attitude of American business firms and banks in the establishment of better credit terms and upon the creation of a proper atmosphere. . . . The nature of the trade between the two countries is exceptionally favorable for the United States, since the Soviet Union supplies raw materials for your industries and in return purchases largely manufactured products . . . the policy of the Soviet Union is to purchase only in such amounts as it is able to pay for. Another important factor is the unblemished record in the punctual fulfillment of all Soviet obligations, a record which the Soviet Union will not fail to maintain in the future.

At a conference in New York on October 11, 1932, a committee of American manufacturers and export associations met to try to devise a plan for using the proceeds of sales of Russian goods in the United States as a revolving fund to guarantee credits extended by American producers to Russian buyers. This project did not materialize. American private credits, however, became more liberal by 1935 when the interest rate was reduced to 5 per cent and the discount rate on the black market went as low as 12 per cent. Orders for machinery were then common on the basis of no cash down and an average of eighteen months' credit.

At the time Russia was reducing her foreign debt, which was fully paid by the end of 1937. In 1938 Amtorg adopted a policy of paying cash forty-five days after shipment, which proved satisfactory to American sellers and was continued until the Lend-Lease system was set up. The funds were cabled from London to the Chase National Bank. Since World War II most purchases, excluding Lend-Lease, were for cash in thirty days.

During United States trading history the Soviet Union sold to American buyers for cash on delivery. Amtorg in New York received and warehoused the goods and collected the payments.

Though the United States government was against the floating of Soviet securities, three small bond issues were marketed here. In 1927 Internal Russian Railway 7 per cent Gold Bonds totaling \$3 million were sold to American investors. The payments on this issue were made on a gold basis even after the gold standard was dropped. Russia finally retired these bonds at par, again on the basis of gold parity. In 1932 a \$1 million issue was floated, and the following year a \$10 million issue by the Soviet-American Securities Corporation.

The United States government entered the field of Soviet financing for the first time in July, 1933, when the Reconstruction Finance Corporation made a \$4,500,000 12-month loan to Amtorg at 5 per cent, guaranteed by the State Bank of the U.S.S.R. for the purchase of 75,000 bales of surplus cotton from Anderson, Clayton & Company of Texas and George H. McFadden Company of New York. Thirty per cent of the order was paid in cash on shipment.

Private efforts to continue RFC financing of Soviet purchases through the creation of a discount bank failed, and Maxim Litvinov's attempt to arrange a \$1 billion credit at

this time also was fruitless. The issue between the United States and the Soviet Union after 1920 was the settlement for property nationalized by the Soviet Union, and for debts owed the United States government.

During the conversations between President Roosevelt and Commissar Litvinov about the time of recognition in 1933, Litvinov said that Russia was willing to settle American pre-World War I debts provided her counterclaims for damages done by Americans during the intervention were allowed and a monetary loan advanced.

Negotiations began when Raymond Moley, assistant secretary of state, and Commissar Litvinov attended the London Economic Conference. The United States declared officially that it consented to finance American exports to the U.S.S.R. through the intermediary of the RFC. In a joint statement issued November 16, 1933, President Roosevelt and Commissar Litvinov expressed the hope that a satisfactory solution of all these questions would promptly be reached and it was confidently expected that a detailed agreement would be signed without delay.

At that time the discussions centered about a \$100 million settlement for United States debts and claims, payments to be spread over twenty years and collectible by means of a higher rate of interest beyond the usual rate, in consideration for commercial credits of \$100 million. The rate of interest was to be 8 per cent.

While the discussions were going on, the RFC proceeded to set up two Export-Import Banks in February and March, 1934, in accordance with the President's executive orders. These were under the direction of the same personnel and the same Board of Directors. One was mainly for loans to Russia on terms to 25 years, and the other was for loans to "all countries except Russia."

With the failure of American-Russian negotiations, and the passage of the Johnson Act, the bank for loans to Russia ceased to exist. On behalf of other countries, the bank's early transactions concerned the disposal of American agricultural surplus commodities, loans for marketing cotton in Latvia, Poland, Yugoslavia, Italy and Germany, and for marketing tobacco in Spain. Loans were also made to Chile, Cuba, Brazil, Finland, and to the Chinese-owned Universal Trading Corporation in New York.

The Johnson Act, approved two months after the incorporation of the bank for Russian loans, made it unlawful for any person to purchase or sell bonds, securities, or other obligations of any foreign government, or to make any loan to such government, if such government was in default in the payment of its obligations to the government of the United States.

This law made it impossible for the bank to function without the debt settlement, which Britain and Germany overlooked. Upon the passage of the act the trustees of the bank approved the following resolution:

No actual credit transaction with the Soviet Government shall be undertaken unless and until that government shall submit to the President of the United States an acceptable agreement respecting the payment of the Russian indebtedness to the Government of the United States and its nationals.

The secretary of state at his press conference after the failure of the U.S.-U.S.S.R. negotiations said:

To facilitate the placing of orders in the United States by the Soviet government on a long-term credit basis, the government of the United States was prepared to make through the Export-Import Bank, to American manufacturers requiring financial assistance in connection with the granting of credits on such orders, loans to a very large per cent of the credit granted. . . .

It was contemplated that the length of the credit extended would vary according to the different categories of goods, and the Soviet government was advised that the government of the United States was not adverse to making special terms in exceptional cases. . . . It was intended that the loans . . . should constitute a revolving fund for the continuous maintenance of Soviet purchases in the United States.

The rupture in Soviet-American debt negotiations was due in part to the length of term for which United States credits were to be granted to the Soviet Union, and in part to the interpretation of the meaning of the word "loan."

When Commissar Litvinov talked with President Roosevelt in the White House in November, 1933, the president promised the commissar a loan. The word "loan" was actually written into a document which Maxim Litvinov has in Moscow. Mr. Roosevelt said he did not mean a loan, he meant credits. A loan is a long-term affair, a credit is opened for a few years. A loan can be used as the borrower sees fit; a credit is used in the borrowing country. To a Russian, a loan means a large sum of money granted for as many as thirty years, which he can spend how and where he pleases.

The Soviet government claimed it was willing to settle our claims only if such special conditions were received which could not be duplicated elsewhere, for France, Germany, and England had debt claims also. Unless it received such special terms that the European nations could not meet, the situation would reopen other debt claims against them which were in excess of the American claims.

Negotiations were resumed January 31, 1935, when Maxim Litvinov came here as ambassador, but were broken off when it was learned that the Soviet government had rejected the American government's offer and had no further proposals to make. By that time Russia's facilities for credits had im-

proved in Germany and England, and many other nations were offering credits and loans.

Business between the United States and the Soviet Union, however, continued to increase until 1938, the last peacetime year before the war, but our sales did not attain the 1930 total even then.

The subject of credit loomed large when Russia planned to enter World War II on the side of the Allies. Before Lend-Lease came into operations, the RFC granted a \$50 million loan. In October, 1941, the U.S. Treasury loaned \$30 million and offered more. The total was around \$100 million. These sums were actually not loans or credits, but were advances for raw materials and shipments of gold. At times the Russian schedule of delivery was delayed, but the total amount finally reached this country. Lend-Lease aid was pledged to Soviet Russia by an exchange of telegrams. On October 30, 1941, President Roosevelt cabled Premier Stalin about arrangements to supply up to \$1 billion in military equipment, armaments and raw materials, that there were to be no interest charges, that payments were to commence 5 years after the war's conclusion and to be completed over a 10-year period thereafter. Premier Stalin accepted the arrangement, November 4, 1941. This agreement was superseded by Russia's signature of the Master-Lend-Lease Agreement, June 11, 1942.

Upon the close of hostilities in 1945, the United States advanced a loan through the Export-Import Bank of \$275 million to complete Lend-Lease purchases here. The terms of the loan are: nine years' grace before principal payments commence, principal payments to be spread over a period of 21 years, interest rate $2\frac{3}{8}$ per cent. As has been indicated earlier, a \$17 million shipment, part of this loan agreement, was held up by the United States Congress in January, 1947,

and likewise in December a \$20 million shipment; in 1948, several shipments destined to the Soviet Union were seized by customs authorities.

Plans for the financing of Soviet Russia's anticipated large excess of purchases over exports to this country have been discussed on several occasions since 1945. Various suggestions have been made with respect to the handling of a credit to the Soviet Union and respecting its amount.

The International Bank for Reconstruction and Development, more commonly referred to as the World Bank, is unable to make a loan to Russia because the articles of agreement that established the bank provide for loans only to member countries, and Russia is not a member. The Export-Import Bank remains the only established organization capable of negotiating and financing the loan.

From the \$3.5 billion at the disposal of the Export-Import Bank, Leo T. Crowley, chairman of the bank's board, announced on July 18, 1945, the Russians are likely to receive \$700 million to \$1 billion in the next year. This loan has not yet been advanced, partly because of the present political situation and partly because no complete settlement has been reached for the payment of Lend-Lease supplies diverted to peacetime use. An approximate sum, \$11 million, has been arrived at.

A great part of the Russian purchases in this country are for capital goods, and not unreasonably the Soviet government wants liberal credit terms while building up its trade balances in the United States. It is the great discrepancies in trade balances in favor of the United States in years past that make a loan or credit essential. For example, in 1938, when there were no controls on exports to Russia, the United States exported to the Soviet Union 28.5 per cent of Russia's total imports and imported 7.3 per cent of her exports. In

1947 the United States sold Russia about \$2.00 worth of goods for every dollar's worth it purchased from the Soviet Union. United States total sales to Russia were \$149,504,067, and purchases were \$77,110,760. If the Soviet Union could obtain the goods she needs from us, the discrepancies in the amounts would be greater. Credits are, therefore, necessary to facilitate trade balances.

Allen W. Dulles, in a speech entitled, "The Role of Our Foreign Trade in European Reconstruction," before the National Foreign Trade Council Convention, November 11, 1946, said:

By and large, a country's over-all imports must be balanced by its total exports, its services, gold, tourist traffic and the like. We can cut a few corners and we can delay the inevitable day of accounting, but eventually it catches up with us.

TRADE BALANCES

Loans or credits to finance United States exports do not answer the question of payment unless specific means for the liquidation of the loans or credits are established. For payment, counterbalancing imports from Russia must be accepted, and willingness to accept and absorb these is the direct measure of the export trade the United States may hope to establish with the Soviets. Loans are deferred imports. Imports must be accepted to pay for our exports if subsidies are to be avoided.

It was President Roosevelt's plan to reorganize American trade with Russia on the principle of balancing payments with imports, through the method he styled "Yankee trading." Based on this principle the future of Russian trade assumes immeasurable proportions.

There appears to be in Russia a marked predilection for American products and methods. The potential Russian

demand for American goods and technological services is under present conditions practically unlimited. Russia's ability to take these is limited by her ability to pay for them, and that in turn is based upon willingness to receive Russian goods in exchange and to extend suitable credit facilities. It is a well-known axiom that in order to sell you must buy. The United States has discovered that payment for exports can be made only in goods, gold, or services, and that when these are not accepted commerce must die.

Either the United States government or American business must work out a way to advance long-term credits to the Soviet Union. Unless that is done, some other power will do it, and American economy will suffer. For the more Russia is forced to sell elsewhere, the more she will buy elsewhere.

The next chapter will endeavor to show how we can grant long-term credits to the Soviet Union, and balance them with imports.



6

An American Loan

If American business desires to make use of the largest market the world can offer today, an American loan, utilized as a revolving credit, is absolutely essential on behalf of the Soviet Union. The Soviet Union mainly buys goods which require a long time to produce a profit, such as machinery and other heavy equipment. It sells goods which are realizable in less time. A loan tides over the time element.

Stalin wants thousands of machine tools, locomotives, railroad cars, road machinery, oil-dredging machinery, plumbing supplies, and other goods. He requires much more from us than we can buy from him for our own use. To increase our imports we must adopt new policies in our trade with the Soviet Union.

An American loan to Russia is not a gift like the funds we have invested and are going to invest in some countries. An American loan to Russia is merely a means for making it possible for American businessmen to profit by the largest potential market in the world.

The success or failure of a large American loan to the U.S.S.R. depends on the extent to which we can balance exports over a period of time. A balanced trade is what Russia has always sought, as evidenced by her trade agreements. It is the only practical basis for trading between nations. And the United States can attain such a balance in the

long run if exports and imports are planned periodically and means are employed for increasing imports.

The inauguration of an expanding import policy would indicate good intentions and might make the Soviet Union less persistent on such drastically longer credit terms than the United Kingdom or any other country can or has offered. Such a policy does not mean the need to flood our markets with competitive Russian products. The solution is to import directly all Russian goods we ourselves use, and to inaugurate stockpiling and re-export policies, the latter so favorably practiced especially by Germany and England.

In the past large quantities of Russian bristles were prepared in France, Germany, and the United Kingdom for shipment to American brushmaking centers. The same is true of some precious stones which were processed in European countries before reaching the United States, the country of ultimate consumption. For a long time Germany re-exported Russian caviar to the United States, France, and England. Since World War II a large British firm, which has an office on Long Island, advertised all types of Russian caviar. More than two-thirds of our total imports of platinum have come through the United Kingdom.

Germany and England have for many years stimulated trade with Russia by a planned system of re-exports. They imported more than they could use themselves and sold the surplus to other nations. Germany built up a considerable trade in the United States by buying Russian products, processing, sizing, or merely repacking them, and selling them to us as German. Russian undressed furs were, to a large extent, dressed, dyed, and finished in Leipzig and London fur markets before being shipped to the United States. London-dyed Russian squirrel still demands a higher price in the United States than squirrel dyed here. Germany and

England, in so far as possible, played the part of broker in trading Russian commodities whether in connection with imports or with exports.

England has been channeling empire exports through London. Some of the products she sells to Russia are re-exports. In 1937, 21 per cent of her re-exports went to Russia. England used to sell Russia tanning supplies which she imported from Argentina. In 1936 among the re-exports to Russia were about 5,000 tons of rubber. The total 1936 British exports to Russia were £12,958,000 (\$64,412,922), more than any other nation sold to the Soviet Union that year. In 1946 American re-exports were \$5,800,000, which is the maximum re-exports we have shipped to Russia.

British re-exports play even a larger part in commodities purchased from Russia. Re-exports of Russian products from England increased from £951,000 (\$4,129,196) in 1933 to £3,905,000 (\$19,678,466) in 1934 and £6,244,000 (\$30,606,839) in 1935. They reached £9,466,000 (\$47,054,539) in 1936 and this amount constituted 73 per cent of the total imports from the U.S.S.R. In other words, England exported to other countries almost three-fourths of what she purchased from Russia. From 1936 to World War II, the re-exports to Russia were not given. And since 1946, British-Russian trade has not attained the 1936 figures.

In addition to making it possible to expand one's trade with a customer nation, purchases used for re-exports provide profits for brokers, shippers, insurance agents, and so on, and in other ways help the general trade of a country engaged in re-exports. They bring added prosperity to the industrialist and the worker.

To inaugurate a re-export policy it is advisable to consider:

1. What the Soviet Union can sell and in what quantities.
2. How much American business can use.

3. How much American business can dispose of in other markets.

4. What other nations produce the same commodities and to what extent the United States is obligated to buy from these other nations.

The same considerations apply to a policy of stockpiling. The most important type of commodity we can stockpile constructively is minerals. For a list of minerals we can import from the Soviet Union and our obligations to other nations and American interests in connection therewith, see the writer's article, "A Reciprocal Trade Agreement with the Union of Soviet Socialist Republics," *World Affairs*, September, 1935.¹

Paul H. Nitze, deputy director of the Office of International Trade Policy, Department of State, Washington, in an address on Friday, February 7, 1947, said:

... two-thirds of our strategic material imports [during the war] turned out to be minerals. Minerals are as vital in maintaining and expanding peacetime production as they are in war. . . . We are approaching a situation of scarcity in certain minerals fully comparable to the situation existing during the war. In part, we are living on stockpiles accumulated by the Metals Reserve Company in prior years, and are still not meeting the requirements of industry.

... the 1935-39 rate of use has been found to be at least 30 per cent under the current annual requirements.

The strategic security of the United States can be aided by the accumulation of adequate stockpiles of strategic minerals. An expansion of the stockpiling program would have the complete support of all of us.

Several years ago, William L. Batt, President, SKF industries and former vice-chairman, War Production Board, warned that United States resources of iron ore, zinc, bauxite, petroleum, timber, and other vital products are "approaching

¹A limited number of reprints are available from the National Foreign Trade Council, 26 Beaver Street, New York, N. Y.

an end." He suggested that the government import and stockpile huge quantities of these materials.

These stockpiles can be used to meet the needs of shortages, to manufacture new products, to supply foreign nations, and to act as a stabilizing mechanism. According to the present plan the United States will supply Italy and other nations with raw materials as part of financial aid, and in return will receive manufactured goods. Raw-material stockpiles can therefore diminish the need for advancing money from the International Monetary Fund. They can aid in balancing our trade with Russia.

Benjamin Graham, in his book *World Commodities and World Currency*,² says:

Russia might annually pay for some \$750,000,000 worth of machinery and other commodities by sending us such items as nickel, chrome, and manganese for our stockpiles.

Even though the acquisition of large commodity inventories for commercial purposes by the government has in some instances resulted in financial loss, as the huge amount of wheat and cotton purchased by the Federal Farm Board in the early thirties, the United States need not take any losses if stockpiles are handled with foresight. Whether a commodity reserve system will function as a national asset or as a national liability depends upon the mechanism under which it operates. It is a question of technique. If a government does not use the stockpiles for dumping purposes, but rather for meeting present and future needs, the reserve system can work out satisfactorily.

Stockpiling is not new. The United States Commercial Company, a subsidiary of the RFC, was purchasing and controlling many of the essential commodities that have been stockpiled in South America during and since World War II. More recently the United States has been stockpiling

² McGraw-Hill Book Company, New York, 1944.

in Latin America tin, rubber, chrome, tungsten, nitrates, antimony, copper, cobalt, and cinchona. In addition to some of these, Russia can furnish bauxite, asbestos, barite and barium products, beryllium, graphite, iodine, iron ore, manganese, mica, nickel, platinum metals, radium, uranium, and talc. For a list of what Russia has sold American businessmen in recent years, see Appendix 10.

Besides inaugurating an extensive re-export and stockpiling program, the United States needs to plan purchases and sales in a general way on a 5- or 10-year basis, and in a specific way on an annual basis. Using four years as the basis for the general plan, Germany made specific plans annually beginning in 1926, and England began the same process in 1934. The financial schedule of the 1934 trade agreement between the United Kingdom and the U.S.S.R. (see Appendix 5) provided that the trade between the respective nations should be progressively so adjusted that within four years it would be almost perfectly balanced. Similar arrangements are expected to result from the 1947 trade agreements.

Annual credits were granted by Germany and England to be utilized within a certain period of time. This was necessary as an aid in attaining the balance of payments, and in maintaining a balanced production. Production for any one market must not interfere with supplies for other markets.

When Russia approached Sweden for a trade agreement in 1946, it was reported that she asked for all of many items Sweden could produce. The Swedish government is reported to have refused this request because it wanted to retain other markets also. The final agreement calls for about 15 per cent of Sweden's production.

Russia must present the United States with a definite list of requirements, and the government should know how much of the required commodities can be produced over a period of time without creating too great a boom, and yet

without keeping Russia waiting too long for her needs. With this information and what commodities, and in what quantities, American businessmen can buy, the limits of the credit can be arrived at.

It will not be necessary for the government to take part in individual contracts with the producers or to name the producers. The Soviet Union prefers to make purchases directly. She does not want cartels or government control of prices. She prefers to bargain directly and to get a special discount in consideration of the size of her purchases.

The length of the credit should vary in accordance with the types of goods and the usual practices. The interest rate should be as low as that granted to any other country. In calculating the total credit there must be taken into consideration the sum of the interest plus amortization which the U.S.S.R. will pay annually by means of direct exports of merchandise and gold. Invisible items of trade, such as tourist expenditures, emigrant remittances, the chartering of ships, ocean freights, insurance, and the like, must also be taken into consideration.

Whether the credit takes the form of government guarantees of purchasers' bills, whether it is a loan by the Export-Import Bank or by private bankers, the handling of the credit will require adequate machinery.

With a suitable attitude on the part of the United States government and its nationals toward the Soviet Union, and with a planned import and export policy as outlined above and the adequate financial machinery for carrying it out, a credit, or a loan used as credit, granted on behalf of the Soviet Union is not a risk; it is a guarantee for a successful exchange of commodities; it is above all a safe investment.

Soviet Russia offers a growing market, let American business take advantage of the opportunity. Let suitable economic relations set the foundation for a lasting peace.



Appendix 1

DOCUMENTS REQUIRED FOR REGISTRATION

Patents

1. Power of attorney
2. Deed of Assignment (if the inventor transfers his rights) signed by the inventor as well as the person in whose name patent application is filed—legalized by a U.S.S.R. consul
3. Inventor's declaration, signed by the inventor, if the application is filed in his name—not legalized
4. Description of the invention (in German, French, or English)
5. Drawings, 1 copy on Bristol board, 2 on cloth, 1 copy for filing, size 21 x 30 or 30 x 42 cm

Trademarks

1. Power of attorney
2. Certificate of registration executed by a U.S.S.R. consul
3. Electrotype 5 x 5 cm.
4. 60 copies of the mark
5. Description of the mark

There are two types of service charges, one to government agencies and the other direct to the government. They are as follows:

Service charges by government agencies

	<i>Patents</i>	<i>Trademarks</i>
	<i>(in rubles)</i>	
1. Filing application	300	250
2. Translations of descriptions, instructions, certificates, cited literature, et cetera		
(a) from English, French, German		
per 100 words	6	6
(b) from Russian	12	12
3. Filing assignment	150	150
4. Supplementary filing of powers or other documents	10	10
5. Searches, minimum	50	50
6. Payment of annuities 1-3rd year	20	per yr. —
Payment of annuities 4-6th year	30	per yr. —
Payment of annuities 7-13th year	50	per yr. —
7. Filing reply to official decision	100	—
8. Declaration of consent	30	—
9. Procurement of copies of patents	5	—
10. Procurement of photostats, per page	8	—
11. Superlegalization of documents	50	50
12. Copies of certificates, powers or other documents and certifying of them by a U.S.S.R. notary, per page	5	5
13. Extension of terms	30	30
14. Request for removal of trademarks	—	150
15. Filing appeal	150	150
16. Filing an opposition or defense against opposition	150	150
17. Preparation for and attendance at hearing (minimum)	150	150

Government fees

1. Application fee	260	25
2. Appeal fee	130	25
3. Assignment fee	260	25

4. Stamp duty	—	10	
5. Publication fee	.30	.65	
6. Annuities for patents			
Year	Rubles	Year	Rubles
1, 2, 3	220 respectively	9	1210
4	330	10	1430
5	440	11	1650
6	550	12	1870
7	770	13	2090
8	990	14	2310
		15	2530

NOTE: Official fees for trademarks are payable for each application at the respective ministries. Service charges to government agencies for trademark applications which are filed at two or three ministries increase the cost by 50 to 100 per cent.

Checks or cash must accompany applications. Checks should be made payable to the State Bank of the U.S.S.R. in Leningrad.

Appendix 2

NEWS COMMENTS AND PUBLIC OPINION

Editorial in the *New York Times*, January 18, 1920:

The Russian blockade is lifted: Mr. Lloyd George, having failed to kill the wolf, now offers him a juicy bone. For the first time in its history the British Empire has adopted the policy of buying off a dangerous enemy—a policy which, to be sure, was successfully employed on occasion by famous empires in the past, but which is as unlikely to bring permanent and satisfactory peace at this time as it is inconsistent with the habit of British foreign policy. To be sure, the surrender is veiled by the solemn assurance that we are reopening trade, not with the Bolsheviks, but with the Russian cooperatives, and that our policy toward the Soviet Government remains the same. But nothing can be

sent into Russia without coming into the possession of the Soviet Government if the Government wants it; whatever the position of the Russian cooperatives, the party which controls the seaports, the railroads, the army, the factories, will be able to take and use everything that is sent in. And to say that the shipment of supplies of all sorts to a government hitherto our enemy involves no change of policy is so ridiculous that the Supreme Council can hardly have hoped that anyone would believe it.

The lifting of the blockade must mean the early conclusion of formal peace. Otherwise we should have the continuation of a state of war in which one side supplies the other side with anything it may need. England could hardly remain in nominal alliance with Poland and Rumania and furnish the Bolsheviki with material to be used in the war against Poland and Rumania.

. . . Peace is only another form of war. But under the leadership of Mr. Lloyd George, the Allies are going to try it.

But this is not the only factor. Bolshevik industry is reviving under the direction of George Krassin, before the war Russian representative of the Siemens-Halske interests in Berlin. That is to say, Germany has the inside track in the race for commercial domination of Russia. Mr. Lloyd George or his supporters may have been inspired in part by the fantastic hope of outstripping the Germans if they can start now. The Germans have more than the inside track—they have an enormous number of business men who know Russia and are known in Russia, while the British have few. On the commercial side it is to be feared that Mr. George's mountain will give birth to a somewhat ridiculous mouse.

Four days later the *New York Times* quoted the Russian Economic League as follows:

The League deems it proper to warn American business men against exaggerated hopes of commerce with Russia as a result of the announcement of the Supreme Council, believing that no sound basis can be laid for commercial relations without the restoration in Russia of the institution of private property and the recognition of the rights of the individual.

Said John Spargo in his report for the Committee on Foreign Relations, January, 1921:

Because Russia's trade is a government monopoly, either we must go bodily over to Communism so that the Communist Government of the United States would deal directly with the Communist Government of Soviet Russia, or the United States Government must itself assume all functions as agent conducting trade with Soviet Russia on behalf of such of our American citizens as may seek profit through such trade. Bearing in mind the fact that the bulk of the goods required must be furnished on credit, it would be necessary in either case for our government to accept the securities of Soviet Russia to the extent of billions of dollars.

It is apparent that the Bolshevik policy of offering to grant great economic concessions to American capitalists is part of a Machiavelian policy which has for its object the embroilment of this and other nations in controversy and eventual war.

In 1947, Arthur Krock pointed out that, as in years past, when the United States conducted campaigns against Russia the blame for trouble of any kind in the world was laid at the door of Soviet authorities, whether it occurred in China, South America, Afghanistan, India, the British coal fields, or anywhere else. He says in the *New York Times* of February 12, 1947, in the article, "Poison That Spreads":

It is becoming apparent to the leaders of both the major parties in Congress and to the Administration, that the enduring issues over world policy between the United States and the Soviet Union are at the base of most of the official cleavages here. To the unsatisfactory state of American-Russian relations they are able to trace differences of opinion over an area wide enough to include the opposition to confirming David E. Lilienthal as Chairman of the Atomic Energy Commission, the intra-Republican split on reciprocal trade agreements and the three-cornered battle of the Federal budget.

Appendix 3

SUMMARY OF HARRIMAN AND LENA GOLDFIELDS CONCESSIONS

On June 12, 1925, W. Averell Harriman and associates were granted a concession for mining and other services by the Soviet government. A summary of the contract follows:

1. Within $3\frac{1}{2}$ years, Harriman and his associates were to build, complete and install the plant and equipment necessary for mining, transportation, washing and concentrating the manganese ore in the Chiatouri District. The total expenditure for this project was to be not less than one million dollars.

2. Within $3\frac{1}{2}$ years, they had to construct the railway siding to Chiatouri and convert the Charopagne-Poti narrow-gauge line into a standard broad-gauge railway. The total expenditure for this job was to be not less than \$10 million.

3. Within 5 years, they had to construct at Poti Harbor mechanical loading facilities, capable of transferring a certain minimum of manganese ore per annum from freight cars to ship-board. Total cost not more than \$1 million.

4. During the first two years, they were to investigate the construction of works for the production of ferromanganese in Georgia. Should they decide they did not wish to build the works, the Soviet government agreed to do so itself or to entrust the task to a third party with the understanding that the third party would be obliged to buy from the concessionaires all the ore required for such ferromanganese works.

5. During the first year, the concessionaires undertook to mine a minimum of 300,000 tons of manganese ore; during the second and third years, an annual minimum of 400,000 tons, and thereafter an annual minimum of 500,000 tons. Further, they undertook to export during the whole twenty years' period of the concession a total of not less than 20 million tons of ore, in guarantee whereof proportional royalties are paid upon each ton exported during each respective 5-year period.

During the first three years, the concessionaires were obliged

to pay the Soviet government \$3 per ton for every ton exported, and thereafter for the remaining 17 years of the concession \$4 per ton. The total sum, according to Soviet estimate for the 20-year period, was to be in the neighborhood of \$62,950,000 if only the minimum amount was extracted. From August, 1925, to August, 1926, there were 762,000 tons mined, or 150 per cent in excess of the minimum provided for in the agreement.

6. In addition to all buildings and installations directly relating to output, Harriman might, at his own discretion, build and install additional railway spurs and sidings, telephone and telegraph lines, housing for laborers, and so on.

7. All equipment must be new and up to date.

8. For the first five years all materials and equipment imported for the needs of the concession were to come in duty free.

9. Labor agreements were to be signed in accordance with the Soviet Labor Code. By special permission the concessionaires had the right to employ foreigners to the extent of 15 per cent of the laboring class and 50 per cent of the higher technical staff.

10. Arbitration was agreed upon for settling any dispute which might arise between the parties as to the interpretation of any particular section of the agreement or for matters relating to it.

11. Provision was made in the agreement for the return of the whole enterprise to the Soviet government upon the expiration of the term, or at any time the concessionaires wished to give it up. At such time there was to be an accounting and a financial settlement.

12. Additional privileges were: the concessionaires had exclusive right to mine and export manganese ore from the whole of the Chiatouri Basin with the exception of a plot retained by the Soviet government. They had at their complete disposal everything already existing within the concession territory, both movable and immovable property and natural resources. They were completely independent in the whole conduct of the enterprise and were not subject to government interference on the part of any government agency.

This concession proved of short duration. The reason given is that the cost of development of the project proved to be much greater than anticipated. Mr. Harriman based his estimates on

those of the engineer who made the preliminary prospecting. Actually the cost of development and the change of the railway from a narrow-gauge to a broad-gauge track proved that the engineer had underestimated costs. Mr. Harriman preferred to make an amicable settlement. The settlement was arranged in 1928 through the issuance of Soviet government bonds and Mr. Harriman's acceptance of annual payments over a period of years. This agreement was satisfactory to both parties.

* * *

The Lena Goldfields Mining Company, Ltd., which operated in Siberia, was a British concession obtained during the pre-World War I days under the tsarist regime, for the exploitation of the gold deposits along the Lena River. The head of the concession was Mr. Urquhart, and a member of the concessions committee was former President Herbert Hoover. President Hoover was a gold-mining engineer and consultant in London before 1914.

The Bolshevik government repudiated the concession on the theory that the subsoil rights of any nation belong to the state and cannot be sold. Negotiations took place in the early twenties for a settlement of the cost of exploitation. No agreement was arrived at by 1925, when the Soviet Union signed new contracts with the Lena Goldfields Mining Company, Ltd. One was for a concession in the Urals and the other in Siberia. These concessions included the largest and richest mineral-bearing areas ever grouped under the aegis of any single Anglo-Russian mining group. These areas contain silver, gold, lead, zinc, and copper mines. A year after the concession agreements were signed, the company employed over thirteen thousand workers.

The agreements guaranteed the full co-operation of the Soviet government and complete safeguarding of the interests of the concessionaires, their agents, and employees. Plant and equipment purchased abroad for the concessions came into Russia duty free. The concessionaires had at their disposal inexhaustible supplies of coal suitable for coking to serve as fuel for their smelting plants, and timber concessions which might be exploited both for the purposes of the concession agreements and for the market.

Between 1925 and 1930 the Soviet government came to the aid of the company with substantial capital loans. One of the concession agreements, however, was terminated in 1928 in a manner similar to the Harriman agreement: through the issuance of government bonds and payments in annual installments. The conclusion of the other concession involved extensive litigation.

In the spring of 1930 the Russians claimed that the Lena Goldfields Mining Company did not have the capital to develop as much as it undertook and that it did not reach the production or construction schedule, especially during the year 1929-30, and that there was mismanagement and failure to fulfill the installation of the latest technical methods. In the fall of 1930 the Lena Goldfields Mining Company preferred to discontinue operations.

The case was first arbitrated in Berlin in 1931, but the verdict of £13 million did not please the Soviet government. It was then mutually agreed to arbitrate again in England. The British court cut the figure to £12 million, which the Russians still considered too high. In 1933 another arbitration tribunal considered the case in England and came to the conclusion that £3 million would amply repay the Lena Goldfields Company for all expenses and losses. At this figure the Soviet government settled the claim on November 5, 1934.

The final figure of £3 million, or about \$15,108,900, was to be paid over a period of twenty years, with the first payment of £50,000 within three days after the notification had been received that the agreement was ratified by the bondholders. The balance was payable in forty installments of £92,500 every six months for a period of ten years, and £55,000 semiannually for the next ten years. The Soviet government issued noninterest-bearing notes payable in London, and has lived up to the letter of its agreement.

* * *

The Percival Farquhar concession for the rebuilding of the iron and steel industries, which was signed in 1923, also was settled by arbitration a few years later, as provided in the agreement. Mr. Farquhar was compensated fully for all his expenditures covering his investigation and reports.

Appendix 4

SUMMARY OF UNITED KINGDOM-U.S.S.R. TRADE AGREEMENT, FEBRUARY 16, 1934

Article 1 provides for most-favored-nation treatment in both political and economic matters; Article 2 defines British-protected persons as "those belonging to any territory, dominion, mandate or any area under His Majesty's sovereignty." Subsection (1) provides that if excessive prices are charged by either of the parties the complainant may immediately propose and enter into negotiation with respect thereto. Subsections (2), (3), and (4) relate to and amplify subsection (1).

In Article 3, the parties agree to aim for an approximate balance of payments. Article 4 states that "transactions will be based on financial and commercial considerations only"; and in 5 (1) the British recognize that the foreign trade of the Soviet Union is a state monopoly; that a trade delegation consisting of a trade representative and two deputies are to form part of the Embassy of the U.S.S.R. Subsection (2) of Article 5 grants diplomatic privileges and immunities to these three officials, and to the offices occupied by the trade delegation and used exclusively for the purpose defined. Subsection (3) states that the functions of the trade delegation are to facilitate and encourage trade between the United Kingdom and the U.S.S.R., and to represent the interests of the U.S.S.R. relating to trade. In subsection (4) the U.S.S.R. only accepts the responsibility for the acts of the trade delegation and not for the acts of the State Economic Organizations which the delegation represents, and it provides that transactions must be countersigned by the trade representative as head of the delegation or either of his two deputies and a person specially authorized by the U.S.S.R. for the purpose. Subsection (5) states that names of persons authorized to sign transactions will be supplied to the United Kingdom from time to time and published in the *Board of Trade Journal*. Subsection (6) states that arbitration is to take place in the United Kingdom, and in subsection (7) the U.S.S.R. agrees to recognize

the decisions of the courts of the United Kingdom. Subsection (8) grants that all property of the U.S.S.R. is subject to the action of the courts with the exception of the property necessary for the exercise of state sovereignty and for the official functions of the diplomatic and consular representatives of the U.S.S.R. in the United Kingdom.

Article 6 grants most-favored-nation treatment with respect to ships and cargoes. This does not apply to the ships in the ports of the Dominions, Ireland, India, or the mandated territories. In Article 7 (1), Britain retains the right of preferential treatment to her Dominions, et cetera, and in subsection (2)-a-b-c, the Soviet Union retains similar rights with respect to countries on its borders, whether they be those countries which are in the customs unions with the U.S.S.R. or countries trading between the frontier zones. Subsection (3) provides that the parties to the agreement may enforce sanitary or other provisions to secure the safety of persons or the protection of animals and plants against diseases and pests; to regulate the trade in arms and ammunition, or to regulate the trade in any particular article under the provisions of any general international convention.

Article 8 grants most-favored-nation treatment to goods from any of the Dominions, possessions, or mandated areas of the British Empire.

Article (9) deals with ratification.

Appendix 5

FINANCIAL SCHEDULE ATTACHED TO THE 1934 TRADE AGREEMENT BETWEEN THE UNITED KINGDOM AND THE U.S.S.R.

1. The payments of the U.S.S.R. in the United Kingdom as hereinafter defined shall bear to the proceeds of the U.S.S.R. in the United Kingdom as hereinafter defined the following proportions:

in the year ending December 31, 1934—1:1.7

in the year ending December 31, 1935—1:1.5

in the year ending December 31, 1936—1:1.4

in the year ending December 31, 1937—1:1.2

Thereafter an approximate balance of payments measured by the ratio 1:1.1 shall be maintained.

2. For the purpose of this schedule—

(a) The proceeds of the U.S.S.R. in any year shall be the value of imports of merchandise (excluding goods transshipped under bond) recorded in that year in the Trade Accounts of the United Kingdom as consigned to the United Kingdom from the U.S.S.R.,¹ subject to the deduction of 97 per cent of the value of canned salmon not handled by the trading organizations of the U.S.S.R.; and

(b) the payments of the U.S.S.R. in the United Kingdom in any year, subject to the provisions of paragraph 3 and 4 of this schedule, shall be the sum of the four following amounts:—

(i) The value of exports of United Kingdom produce and manufactures and of imported merchandise (excluding goods transshipped under bond) recorded in that year in the Trade Accounts of the United Kingdom as consigned from the United Kingdom to the U.S.S.R. subject to the deduction of the value of goods exported or re-exported in that year from the United Kingdom to the U.S.S.R. for which payment is not made in the year in which the export or re-export takes place;

(ii) the amount of credits repaid by the Government or trading organizations of the U.S.S.R. in that year (excluding interest) in respect of exports or re-exports of the United Kingdom in previous years;

(iii) the amounts paid by the Government or trading organizations of the U.S.S.R. in that year in respect of the chartering of British ships registered at ports in the United Kingdom; and

(iv) an amount equal to 6½ per cent of the sum of the imports of the United Kingdom from the U.S.S.R. in that year (as defined in paragraph (a) above, and excluding 97 per cent of the value of canned salmon not handled by trading organizations of the U.S.S.R.) and the exports and re-exports of the United Kingdom

¹ Goods passing under bond through the territory of the U.S.S.R. will not be regarded among imports consigned to the United Kingdom from the U.S.S.R. unless they are recognized for the U.S.S.R.

to the U.S.S.R. in that year (as defined in subparagraph (i) above) to represent the excess of all payments of the U.S.S.R. not otherwise specifically provided for over similar payments of the United Kingdom.

3. If in any year the payments of the U.S.S.R. differ from the amount which they should have reached in accordance with the provisions of paragraph 1 above, the amount of any deficiency will be deducted from and the amount of any excess will be added to the sum of the four amounts referred to in the preceding paragraph in computing the payments of the U.S.S.R. in the following year, and the payments of the U.S.S.R. in that year shall be deemed to be the amount arrived at after the deduction of the amount of that deficiency or after the addition of the amount of that excess, as the case may be.

4. The Government of the United Kingdom agrees that expenditure incurred by the Government or trading organizations of the U.S.S.R. upon the purchase for export of British ships registered at ports in the United Kingdom, the export of which, being older vessels, is not regarded among the exports of the United Kingdom, is a proper addition to the payments of the U.S.S.R., and the Government of the U.S.S.R. will from time to time supply the Government of the United Kingdom with a statement showing the names of any such ships, the amounts paid in respect of each ship, and the dates upon which such payments were made.

5. The trading operations of the U.S.S.R. shall be so conducted that the amount by which the payments of the U.S.S.R. in the United Kingdom fall short, in any year, of the amount which they should have reached in accordance with the provisions of paragraph 1 above, shall not be more than $7\frac{1}{2}$ per cent of the later amount.

6. The Government of the U.S.S.R. will supply the Government of the United Kingdom the following information in respect of each year:—

(i) A statement of payments (excluding interest) made in that year in respect of exports of the United Kingdom produce and manufacture to the U.S.S.R. showing separately payments made in respect of goods exported during the year and goods exported during each previous year.

(ii) A statement of payments (excluding interest) made in that year in respect of re-exports from the United Kingdom to the U.S.S.R. (excluding goods transshipped under bond) showing separately payments made in respect of goods re-exported during that year and goods re-exported during each previous year.

(iii) A statement showing the British ships registered at ports in the United Kingdom chartered during that year and the amounts paid in that year by the Government or Trading Organizations of the U.S.S.R. in respect of any ship chartered in that or any previous year.

(iv) A statement showing the declared value at the time of importation of canned salmon imported into the United Kingdom from the U.S.S.R. which has been handled by trading organizations of the U.S.S.R.

7. The Government of the Union of Soviet Socialist Republics will also furnish the Government of the United Kingdom with a statement showing the payment (excluding interest) made by the Government and trading organizations of the U.S.S.R. in the year ending the 31st of December, 1933, in respect of (i) exports to the U.S.S.R. of United Kingdom produce and manufactures, and (ii) exports to the U.S.S.R. of imported merchandise (excluding goods transshipped under bond) which were exported during that year to the U.S.S.R.

8. In this Schedule, unless the context otherwise requires, the expression "year" means a year beginning the 1st January and ending the 31st December. The expression "merchandise" has the same meaning as in the Trade Accounts of the United Kingdom.

Appendix 6

Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Union of Soviet Socialist Republics concerning *Mutual Deliveries, Credit and Methods of Payment*.

MOSCOW, 16TH AUGUST, 1941

The Government of the United Kingdom of Great Britain and Northern Ireland (hereinafter referred to as "the Government of the United Kingdom") and the Government of the Union of Soviet Socialist Republics, desiring to arrange for mutual deliveries and to provide for the associated payments, have agreed as follows:—

ARTICLE 1

(a) The Government of the United Kingdom and of the Union of Soviet Socialist Republics have agreed to deliver goods to one another. Such mutual deliveries of goods shall be regulated by special lists to be agreed upon between the two Contracting Parties. Such lists may be supplemented or modified by agreement between the two Contracting Parties.

(b) In the event of either Contracting Party requesting the other to act as its agent in the purchase of any goods in third countries, such transaction shall not fall within the scope of this Agreement.

ARTICLE 2

Unless otherwise agreed in writing delivery of goods in accordance with Article 1 of this Agreement shall be taken—

(a) in cases where shipment is made in vessels other than those of the seller, at the port of shipment; and

(b) in cases where shipment is made in the vessels of the seller, at the port of discharge.

ARTICLE 3

(a) The prices to be charged by the seller to the purchaser for the goods to be delivered in accordance with Article 1 of the Agreement shall be based on world prices. However, in regard to the price of any commodity in respect of which the Government of the United Kingdom have or shall have an agreement with the Government of any foreign country concluded after 2nd September, 1939, the Union of Soviet Socialist Republics shall receive treatment at least as favourable as that country.

(b) Prices shall in every case be calculated f.o.b. port of ship-

ment, and the buyer shall pay the freight from such port onward and shall bear the risks of maritime transportation.

(c) All contracts shall be concluded in sterling, and prices which are normally quoted in United States dollars shall be converted into sterling at the official middle rate of exchange for United States dollars in London on the day on which the contract is concluded.

ARTICLE 4

The British Government War Risks Insurance Office and the Trade Delegation of the Union of Soviet Socialist Republics in the United Kingdom shall negotiate the insurance against marine and war risks of the goods purchased by Soviet organizations under the present Agreement, of Soviet ships effecting the transportation of such goods, and also of gold and of such other cargoes and ships effecting the transportation of these cargoes belonging to the Union of Soviet Socialist Republics as may from time to time be agreed upon between the two Contracting Parties.

ARTICLE 5

(a) All payments between the United Kingdom and the Union of Soviet Socialist Republics for the deliveries provided for in this Agreement shall be made, upon receipt of advice that the delivery of the goods has been taken, in sterling through an Account in the name of the State Bank of the Union of Soviet Socialist Republics to be established at the Bank of England (hereinafter referred to as "the Account"). For this purpose, the Bank of England and the State Bank of the Union of Soviet Socialist Republics shall agree together upon the necessary technical measures for effecting payments hereunder.

(b) Repayment by the Government of the Union of Soviet Socialist Republics of existing indebtedness under the 1936 Export Credit Guarantee Agreement may also be made in each three-monthly period through the Account, up to the value of their deliveries of goods hereunder during that period.

(c) Such other payments may also be made through the Account as the two Banks, with the approval of their respective Governments, may from time to time agree.

ARTICLE 6

The Account shall be balanced on 31st October, 1941, and at the end of every three months thereafter. Any debit balance shall be discharged as follows:

(a) As to 40 per cent by sterling received by the State Bank of the Union of Soviet Socialist Republics from the sale to the Bank of England of United States dollars or of gold to be delivered at centres agreed upon between the Bank of England and the State Bank of the Union of Soviet Socialist Republics; or by delivery of platinum up to such amounts as the Government of the United Kingdom may from time to time specify, the sterling value of such platinum to be agreed between the two Governments.

Sales of United States dollars to the Bank of England shall be made at the official middle rate of exchange for United States dollars in London on the day of sale.

Unless otherwise agreed between the Bank of England and the State Bank of the Union of Soviet Socialist Republics, sales of gold to the Bank of England shall be made at the official price of gold in the United States of America on the day of sale, and the United States dollars shall be converted into sterling at the official middle rate of exchange for United States dollars in London on the day of sale.

(b) As to 60 per cent in sterling to be paid to the Account of the Government of the United Kingdom by way of advance to the Government of the Union of Soviet Socialist Republics.

Any credit balance shall be at the free disposal of the State Bank of the Union of Soviet Socialist Republics.

ARTICLE 7

(a) The total of the advances outstanding made hereunder by the Government of the United Kingdom to the Government of the Union of Soviet Socialist Republics shall not exceed the sum of 10 million pounds. When the total of the advances outstanding approaches the said 10 million pounds the Contracting Parties shall enter into negotiations for a further credit to be granted in the same terms and to be used for the same purposes as are laid down in this Agreement.

(b) The amount of each advance so made shall be repayable in sterling or United States dollars, at the option of the Government of the Union of Soviet Socialist Republics, in five equal yearly instalments, of which the first shall be paid at the end of the third year and the last at the end of the seventh year, reckoned in every case from the date on which the advance was made.

(c) Interest, reckoned in every case from the date on which the advance was made, shall be payable on the amount of the advances outstanding, half-yearly on 30th April and 31st October, at the rate of three per cent per annum in sterling or United States dollars at the option of the Government of the Union of Soviet Socialist Republics.

(d) The conversion of sterling into United States dollars for the purpose of calculating payments under this Article shall be effected at the official middle rate for the United States dollar in London on the day on which payment falls due.

FINAL ARTICLE

This Agreement shall come into force on the date of signature, and shall remain in force for the whole period of the utilization of the credits and of the effecting of deliveries under this Agreement.

In witness whereof the undersigned, duly authorized by their respective Governments for that purpose, have signed the present Agreement and have affixed thereto their Seals.

Done in Moscow, in duplicate, the sixteenth day of August, nineteen hundred and forty-one, in English and Russian, both texts having equal force.

On behalf of the Government
of the United Kingdom of
Great Britain and Northern
Ireland:

(L.S.) R. Stafford Cripps

On behalf of the Government
of the Union of Soviet Social-
ist Republics:

(L.S.) A. Mikoyan

Appendix 7

SCHEDULE I (to Article III of the Annex)

EQUIPMENT FOR DELIVERY FROM THE UNITED KINGDOM TO THE UNION OF SOVIET SOCIALIST REPUBLICS.

<i>Item Number</i>	<i>Description of Equipment</i>	<i>Quantity or Amount</i>	<i>Prospective Period of Delivery</i>
1	Narrow Gauge 750-mm. Locomotives	1,100	75 in first two years from placing of order. 350 per annum thereafter. Complete in $2\frac{3}{4}$ years from commencement of delivery.
2	Flat Trucks 750-mm.	2,400	Commence 18 months after placing of order at 25 a month. This rate will increase to 100 a month and the delivery period will cover approximately $2\frac{1}{4}$ years.
3	Winches (2 and 3 Drums)	2,400	Commence 12 months after placing of order. Delivery at rate of 1,000 units in 1949 and 1,400 units in 1950. One-half will be fitted with electric motors.
4	Excavators	210	In 1948—30 units. In 1949—60 units. In 1950—120 units.
5	Caterpillar loading cranes (Diesel type in substitution for equivalent number of excavators)	54	In 1948—4 units In 1949—20 units. In 1950—30 units.

<i>Item Number</i>	<i>Description of Equipment</i>	<i>Quantity or Amount</i>	<i>Prospective Period of Delivery</i>
6	Auto timber carriers	250	2 a week commencing 18 months after placing of order.
7	Tugs	14	In 1948—4 from surplus, 10 from new building starting 18 months after placing of order. Delivery one per month.
8	Dredgers	4	First—24 months after placing of order. Remainder at rate of one every 3 months.
9	Locomobiles	200 units	Commence delivery in 21 months from placing of order and complete in further 18 months.
10	50-K.W. Mobile Diesel Electric Generators	150	15—4 months from placing of order. 135 in further 12 months.
11	Steam Power Turbine Stations, 500 K.W.	24	First set would be delivered in 2½ years from placing of order and thereafter 1 set per month.
12	Plywood Equipment	£1,050,000 value	1949—£100,000 per annum 1950—£200,000 " " 1951—£200,000 " " and after at the rate of £200,000 per annum.
13	Timber Mill Equipment	£400,000	1949—£50,000; 1950—£100,000; 1951—£100,000; and after at the rate of £100,000 per annum.

SCHEDULE II (to Article III of the Annex)

EQUIPMENT FOR DELIVERY FROM THE UNITED STATES TO THE
UNION OF SOVIET SOCIALIST REPUBLICS

<i>Item Number</i>	<i>Description of Equipment</i>	<i>Quantity or Amount</i>	<i>Prospective Period of Delivery</i>
1	Scientific and Laboratory apparatus	£150,000 value	In 1948-49
2	Pile Drivers mounted on Pontoons	4	Delivery first one in 2 years after placing of order and then one every five months.
3	Winding Gear	4 sets	Start in 2 years after placing of order and complete in further 6 months.
4	Electro Dredger	1	Delivery 2½ years after placing of order.
5	Ball Mills for Copper Ore Grinding	18	Start 2¼ years after placing of order. Deliver 4 mills a month.
6	Ball Mills for Grinding Apatite	8	Start 2¼ years after placing of order. Deliver 4 mills a month.
7	Rod Mills for Grinding Ores	3	Deliver in 2¼ years after placing of order.
8	Spiral Type Classifiers	8	Deliver in 2½ years after placing of order.
9	Gyratory Crushers	2	Deliver in 2 years after placing of order.
10	Railway Steam Cranes	3	Delivery 2 years after placing of order.
11	154-K.V. Voltage Transformers	48	Delivery to commence 2½ years after placing of order and complete in further 12 months.
12	Complete Distributing Sets (13.8 K.V.)	6	Delivery to commence 2½ years after placing of order and complete in further six months.

<i>Item Number</i>	<i>Description of Equipment</i>	<i>Quantity or Amount</i>	<i>Prospective Period of Delivery</i>
13	Isolating Switches (154 K.V.)	45	Delivery to commence 2¾ years after placing of order and complete in further six months.
14	Oil Purifying Apparatus	10	Delivery to commence 2 years after placing of order and complete in further six months.
15	100-K.W. Electric Motors	300	Delivery to commence 2 years after placing of order at rate of 150 a year.

Appendix 8

PAYMENTS AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS.

(1)

Sir Maurice Peterson to M. A. Mikoyan
British Embassy,
Moscow, 27th December, 1947.

Monsieur Mikoyan,

With reference to the recent consultations which have taken place between representatives of our two Governments, I have been instructed by my Government to propose that the following procedure relating to payments between the Union of Soviet Socialist Republics and the "Scheduled Territories" as defined in paragraph 6 (i) below and the use of sterling for payments, between the Union of Soviet Socialist Republics and other countries should apply:—

1. All payments between residents of the Union of Soviet Socialist Republics and residents of the Scheduled Territories shall continue to be settled in sterling.

2. (a) As from 15th January, 1948, the existing Account of the Bank of England, called the "State Bank of the Union of Soviet Socialist Republics No. 1 Account" shall be designated "State Bank of the Union of Soviet Socialist Republics No. 2 Account."

(b) As from 15th January, 1948, the existing "ordinary" undesignated accounts of the State Bank of the Union of Soviet Socialist Republics at the Bank of England and at the Moscow Narodny Bank, London, shall each of them be designated "State Bank of the Union of Soviet Socialist Republics No. 1 Account." Each of these accounts shall be a transferable account and they are hereinafter jointly referred to as "the Transferable Accounts."

3. The Government of the United Kingdom shall not restrict—

(a) The availability of sterling standing to the credit of "Transferable Accounts" for making payments for current transactions to residents of such countries outside the Union of Soviet Socialist Republics and the Scheduled Territories as may be agreed between the Bank of England and the State Bank of the Union of Soviet Socialist Republics acting as agents for their respective Governments.

(b) The availability of sterling standing to the credit of the "Transferable Accounts" and of any Union of Soviet Socialist Republics Account as defined in paragraph 6 (ii) below for making payments to other residents of the Union of Soviet Socialist Republics or to the residents of the Scheduled Territories.

4. The Government of the Union of Soviet Socialist Republics shall not restrict the acceptance by residents of the Union of Soviet Socialist Republics of sterling at the disposal of residents of such other countries outside the Union of Soviet Socialist Republics and the Scheduled Territories as may be agreed between the Bank of England and the State Bank of the Union of Soviet Socialist Republics acting as agents for their respective Governments in settlement of payments for current transactions.

5. All transactions authorized by the State Bank for payment through the "Transferable Accounts" shall be in respect of current transactions.

6. For the purpose of these arrangements the expression—

- (i) "The Scheduled Territories" shall have the meaning from time to time assigned to it under the United Kingdom Exchange Control Act, 1947.
- (ii) "Union of Soviet Socialist Republics Account" means any account so designated by the Bank of England under the United Kingdom Exchange Control Act, 1947.

I have the honour to suggest that the present letter and your reply should be regarded as constituting an agreement between the two Governments in this matter with effect from 15th January, 1948.

I avail, &c.

(Signed) Maurice Peterson.

(2)

(Translation)

M. A. Mikoyan to Sir Maurice Peterson
Ministry of Foreign Trade
of the U.S.S.R.
Moscow, 27th December, 1947.

M. l'Ambassadeur,

Acknowledging receipt of your letter of to-day's date, I have the honour to inform you that the Government of the U.S.S.R. accepts the proposals set forth in that letter relating to payments between the U.S.S.R. and "the Scheduled Territories" and the use of pounds sterling between the U.S.S.R. and other countries.

Your letter and this answer will be considered as constituting an agreement between the two Governments, coming into force as from 15th January, 1948.

I take this opportunity, &c.

(Signed) A. Mikoyan.

Appendix 9

SUMMARY OF GERMAN-U.S.S.R. TRADE AGREEMENT

The Soviet-German trade agreement of March, 1935, was not made public. The following summary was prepared from in-

formation in *Ostwirtschaft* (Eastern Economy), No. 4/5, pages 61 to 63:

The agreement is divided into two parts. The first part contains provisions for the payment of accrued Soviet debts during the year 1935. The Soviet government was to pay a considerable part of the amount due in gold and foreign exchange. The balance of 100 million marks (\$40,257,500 at the average rate of exchange for 1935) was payable in raw materials and other goods which were of vital importance to Germany and were enumerated in a special list. The most important commodities included in this list were mineral oils, lumber, manganese ore, platinum, apatite, flax, hemp, furs, bristles, and asbestos.

All Soviet imports into Germany were payable in marks, which the Soviet trade delegation might dispose of freely within Germany. For current business 60 million marks were to have been spent in Germany for goods, for chartering of German vessels, for freight payments, and for technical assistance by German firms. Contracts for these goods and services were placed between April 1 and December 31, 1935. It was specified that the prices were to be reasonable.

Payment was made either in cash or in bills of exchange. If payment was by means of bills, the credit was not to exceed the limits of the June 15, 1932, agreement, which was extended to April 7, 1936. The Reich's guarantee on the above expenditures was 60 per cent of the invoice value. On heavy equipment it was 70 per cent.

The second part of the agreement dealt with the release of the requirement of *Devisenbescheinigungen* (permits for foreign exchange for Russian orders). It also pertained to the placement of additional orders with German firms in the amount of 200 million marks, over \$80,500,000, based on credits averaging five years, for heavy equipment. Seventy-five per cent of the orders were to be placed by December 31, 1935, and the balance in a year from the agreement, March 31, 1936.

Appendix 10

COMMODITIES RUSSIA HAS EXPORTED TO THE UNITED STATES

Anatomical preparations	Caraway seed	Feathers, goose
Andesite	Carpets, Oriental	Fennel oil
Anise oil	Caustic soda	Fennel seed
Anisseed	Caviar	Fertilizers
Ant eggs	Cedar-nut oil	Fibres, waste, etc.
Apatite	Ceresin	for paper making
Apples, preserved	Chalk	Field bones
Apricot oil	Charcoal	Film, positives
Arsenic, trioxide	Chrome ore concentrates	Fish, canned
Art works	Cigarettes	Fish, fresh
Asbestos	Coal, anthracite	Fish, frozen
Atropine sulphuricum	Confectionery	Fish meal
Badger hair, down	Coriander seed	Fish scales
Barites	Cotton cloth	Flax and tow and manufactures thereof
Beans	Cotton linters	Fruits
Beeswax	Cotton lace	Fruit butter
Berries	Cotton waste	Fuller's earth
Beryl ore	Cow hair	Furs, dressed and undressed
Birch-tar oil	Crabmeat, canned	Gelatine
Biscuits	Cranberry extract	Geranium oil
Black currant pulp	Crash towels	Glass and glassware
Books	Damask and manufactures	Glue and fish glue
Boots and shoes	Diamonds, jewel	Glycerin
Brass manufactures	Diatomite	Goat hair
Bristles	Dolls and parts	Goat skins
Bulbs, flower	Embroideries	Gold
Calcium carbide	Emeralds	Gum tragacanth
Camelhair	Essential or distilled oil, n.e.s.	Halvah
Camomile flowers	Fabrics, vegetable fibre	Handicraft products
Canary seed		
Candy		

Hemp and manu- factures	Dandelion root	Paper boxes
Herring	Digitalis leaves	Paraffin wax
Hops	Elder flowers	Parsley seed
Horse hair	Elecampane root	Pearl essence
Huckleberries, dried, pulp	Ergot of rye	Peas
Ichthyol	Formic acid	Peat, peat moss
Infusorial earth	Henbane	Peppers, sweet
Iron and steel mfrs.	Juniper berries	Peppermint oil
Iron ore	Kephyr mush- rooms	Phonograph records
Iridium	Licorice root	Pickles
Ivory tusks	Linden flowers	Pig iron
Jams	Lycopodium	Pine-needle oil
Jellies	Poke root	Pipes, smokers'
Kaolin	Valerian root	Pitch
Knitwear	Mica, scrap	Playing cards
Labradorite	Mineral waters	Platinum
Laths	Motion-picture films	Plywood
Lavender oil	Mushrooms	Poppy seed
Leather	Mustard, ground	Potash
Lentils	Mustard seed	Potassium bromide salts
Linen, linen crash	Nickel and alloys	Potato flour
Lumber, sawn	Nicotine sulphate	Pottery
Magnesite	Nonferrous metal manufactures	Poultry
Malt extract	Nuts	Precious stones
Manganese	Walnuts	Pulpwood
Marble and chips	Almonds	Pumice stone
Marmalades	Filberts	Pumpkin seeds
Matches	Pistachio	Pyrites
Meats	Oak boards	Quince seed
Medicinal herbs, roots, barks, etc.	Oak logs	Radium
Agaric fungus	Oak staves	Rags for paperstock
Alsinthium	Oakum, tarred	Raisins
Althea root	Osmium	Raspberry pulp
Belladonna leaves	Paintings	Rhodium
Buckthorn bark	Palladium	Rock-crystal salt
Cantharides	Paper	Roses, attar of
		Rubber articles
		Rugs

Rye malt	Sodium hydrosul-	Toys
Samovars	phite formalde-	Turpentine
Sandpaper	hyde	Urtite
Santonin	Spring adonis	Vegetables, canned
Sauces	Statuary	Veneer, birch
Sausage casings	Stearin	Vetches
Seal skins	Stone, building or	Watch parts
Seeds n.e.s.	monumental	Wheat
Sheep skins	Strawberry pulp	Willow twigs
Sheets, pillowcases,	Sugar-beet seed	Witherite
towels, etc., fibre	Sulphichton	Wooden manufac-
Silk, raw and waste	Sunflower seeds	tures
Silk apparel	Sunflower-seed oil	Woodpulp
Silver and plated	Talcum, etc.	Wools, carpet and
manufactures	Tar, pine	other
Slippers	Tobacco, cigarette	Woolen wearing
Soaproot	leaf	apparel

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